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NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

**DTIC QUALITY INSPECTED 3**

**DISTRIBUTION STATEMENT A**  
**Approved for public release;**  
**Distribution Unlimited**

**19980518 159**

# China

JPRS-CAR-90-013

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## GENERAL

### U.S.-NATO Relations Remain Close Despite Strategic Differences

90WC0019A Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES] in Chinese  
No 4, 13 Oct 89 pp 13-18

[Article by Wang Haihan (3769 3189 3211): "U.S.-West European Relations Seen in Terms of the Short-Range Missile Dispute"]

[Text] During 1989 a new conflict occurred between the United States and the countries of West Europe over European defense issues. This conflict was rooted in a markedly increased sense of sovereignty accompanying the improvement in West Europe's economic position. Faced with new circumstances, the United States revised its policy toward the USSR and made some compromises on the short-range missile issue, which played an important role in easing relations between the United States and Western Europe.

After more than 40 years of cold war between East and West, tremendous changes have taken place in both East-West relations and the European situation. A relaxation has occurred in relations between the United States and the USSR and in the overall international situation, confrontation is turning into dialogue and disarmament is beginning to make real advances. This new situation has produced an unprecedented impact on the foundation for the alliance between the United States and West Europe. The conflicts and disputes between them have become increasingly sharp and open, and these internal rifts are also likely to deepen and widen, and may be difficult to close. How the United States and the West European allies will readjust policies and harmonize their stands in order to deal with various internal and external challenges will be a major factor affecting U.S.-European relations and the development of East-West relations.

A. During 1989, new open disputes erupted between the United States and the FRG over the defense of Europe. Because both sides stuck to their positions, an internal crisis occurred between the United States and its West European allies.

At the end of 1987, the United States and the USSR signed a treaty for the abolition of intermediate-range nuclear forces, which provided for the complete elimination from Europe before 1992 of all guided missiles with a range of 500 kilometers or more. In addition, the 88 short-range "Lance" missiles with a range of 110 kilometers that NATO deployed in Europe were to be withdrawn in 1995. In view of this, the United States feared that a third zero-point policy might occur that would rob NATO's nuclear-threat strategy of its effectiveness. The United States believed it was necessary to develop highly accurate missiles with a range of under 500 kilometers in order for NATO to be able to continue to carry out a "flexible response" strategy toward the

Warsaw Pact, and the United States proposed the renewed deployment of short-range missiles in the FRG. Although the FRG, as the main party concerned, did not oppose in principle the modernization of short-range missiles, for various domestic political and diplomatic reasons it hoped to postpone a decision on this matter until after 1990. Since February 1989, the FRG and the United States have argued openly about the short-range missile modernization issue. On 10 February, an FRG government spokesman set forth the FRG's stand clearly and unmistakably, maintaining that NATO did not have to decide on the modernization of short-range missiles before 1991. This announcement made the United States feel extremely concerned. The United States immediately sent Secretary of State James Baker on a six-day "whirlwind" visit to 14 West European countries, including the NATO countries and France, in an effort to lobby the other members of the alliance to reach a consensus as a basis for getting the FRG to change its stand. However, Baker's European trip produced miniscule results. Except for the UK, which resolutely supported the United States, other countries, such as Denmark, the Netherlands, Belgium, and Norway, continued to side with the FRG, and Italy and France maintained a lukewarm attitude in favor of the FRG. Next, British Prime Minister Margaret Thatcher personally visited the FRG and France during the end of February to urge the FRG to agree in principle to the modernization of the short-range missiles, leaving other specific issues for future discussion. Prime Minister Helmut Kohl reiterated his earlier position. Subsequently, claims circulated that NATO officials had reached a compromise on 22 March, unanimously agreeing to research and develop a new generation of short-range missiles, but not to deploy them for the time being. On 25 March, the FRG Ministry of Foreign Affairs issued a statement categorically denying this report. On 21 April, Prime Minister Kohl announced in the Bundesrat that he was urging the United States and the USSR to hold talks as soon as possible on the reduction of short-range missiles in Europe. On 24 April, FRG Foreign Minister Hans-Dietrich Genscher, and FRG Minister of National Defense Dr. Gerhard Stoltenberg held talks with U.S. Secretary of State Baker in which they again requested the United States to hold talks with the USSR as soon as possible on the short-range missile reduction issue. The United States was much irritated at the FRG for singing an opposition refrain publicly, and the United States stated openly that the proposal for talks between the United States and the USSR on the reduction of short-range missiles was "mistaken." On 5 May, President Bush and Prime Minister Kohl had a telephone conversation in which they discussed their differences on the short-range missile issue. They expressed the hope that a compromise solution could be found before the NATO heads of state meeting at the end of May. At the same time, Bush remained unwilling to back off from the United States' stand, insisting that substantive progress had to be made on conventional arms negotiations, and that agreement had to be reached and a beginning made

before short-range missile negotiations could be conducted. On the eve of the NATO heads of state conference, FRG Minister of National Defense Stoltenberg traveled to the United States again. Both the United States and Germany adopted a more flexible attitude. The United States declared that once "irreversible" progress had been made on conventional arms negotiations, consideration could be given to negotiations with the Warsaw Pact on short-range missiles. The FRG also yielded, agreeing with the U.S. proposal to "link" negotiations on short-range missiles and conventional weapons. Although this historical "short-range missile dispute" of several months created no greater crisis, it caused a subtle rift.

**B.** This unprecedented conflict over security strategy between the United States and its West European allies resulted from different U.S. and European assessments of the USSR now that major changes had occurred in the world situation, as well as from greater West European attention to and safeguarding of its own interests from a geopolitical standpoint.

1. The intermediate range missile treaty brought to an end the tense situation between the United States and the USSR in vying to deploy intermediate-range missiles on the European continent, and East-West relations began to ease. In order to get out of a serious economic predicament, the USSR dedicated itself to reform at home while attempting, through disarmament and cooperation, to promote a further easing of relations with the West in an effort to build a fine international environment. In pursuit of this goal, the USSR upgraded the position of West Europe in its overall diplomatic strategy, making the development of relations with West Europe a principal way in which to promote a relaxation. The USSR put forward the principle of "common security," with no pursuit of military dominance, in keeping with the demands of West Europe, and it repeatedly trotted out various suggestions to influence West Europe's attitude on disarmament in an effort to diminish or even eliminate a psychology of fear of the Soviet military threat on the part of the countries of West Europe. The USSR acknowledged the imbalance in conventional weapons between the Warsaw Pact and NATO and agreed to eliminate that imbalance. The USSR was prepared to compromise on the reduction of conventional weapons and on global prohibition of chemical weapons. After declaring a unilateral 500,000 cut in its armed forces, the USSR made substantial concessions at the continuation of the Vienna Security Conference, announcing the withdrawal from East Europe of 500 tactical nuclear weapons, and that it was prepared to withdraw all nuclear weapons from the territories of its allies from 1989 through 1991 on condition that the United States take similar steps. Subsequently, other Warsaw Pact countries also announced their own disarmament plans. In addition, the USSR actively launched an all-points diplomacy, proposing the idea of jointly building a "European Mansion," and improving both economic relations and

technical cooperation with West Europe. All of this won a fairly positive reaction from West Europe, which believed that a qualitative change had taken place in the USSR's diplomacy, and that although the Soviet Union still had powerful military forces, it had no military ambitions. Most of the countries of West Europe were in favor of using this historical opportunity to help the USSR politically and economically in suitable ways. They also proposed disarmament as a means of achieving military parity at a low level in order to safeguard the prevailing relaxed situation and to reduce the military threat against West Europe. Leaders of the West European countries confirmed in their speeches the enormous changes in Soviet policies, and they praised Mikhail Gorbachev as a modern man "in tune with the tide of history." They believed that reforms in the USSR would lead to arms reductions, would strengthen security, and would give impetus to a Soviet opening to the outside world and an accommodation with the West. During 1989, the UK, the FRG, and France invited Soviet leaders for visits. Acting out of their own economic interests, the countries of Western Europe contacted the USSR directly, thus setting off an upsurge in which numerous countries did business with and entered into joint partnerships with the USSR. They also provided huge loans to the USSR, and they considered further liberalization of restrictions on the export of high-technology products to the USSR.

Substantial differences existed between the assessment of the United States and the West European allies of the changes that had taken place in the USSR, and their prospects. The United States remained suspicious about the motivation and the long-range effects of Soviet reforms, emphasizing that the reforms in the USSR had yet to bring about a turn for the better in the Soviet economy, that political reform had given rise to quite a few serious problems, and that forces in the Soviet Union opposed to reform remained very strong. In addition, there were thorny nationalities problems. Gorbachev had too many matters to look after at the same time and he was in an extremely difficult situation. Some U.S. officials and statesmen predicted that "Soviet reforms will fail."<sup>1</sup> Thus, the United States emphasized that the West could not build its own strategy on an assessment that Soviet reforms would develop smoothly; it advocated adoption of a cautious and realistic attitude toward the USSR in order to keep pressure on the USSR. In February 1989, when Secretary of State Baker traveled all over West Europe, he urged the allied countries to regard with caution the changes brought about by Soviet reforms. Inasmuch as the USSR held superiority in both conventional weapons and short-range missiles, the United States persisted in maintaining that current talks with the USSR should concentrate on conventional weapons in an effort to achieve parity between East and West in conventional forces as quickly as possible. In addition, the elimination of intermediate-range missiles had already produced a gap in the NATO defense system. The United States persisted in wanting to improve NATO's weapons systems in order to improve

NATO's power position for effective implementation of its "flexible response" to genuinely contain a conventional attack by the Warsaw Pact. Furthermore, in recent years the United States maintained a high degree of vigilance toward Soviet attempts to drive a wedge between the United States and Europe, and its nonnuclear tactics in Europe. Henry Kissinger said incisively that "If Soviet policy is not targeted at driving the United States completely out of Europe, it is bent on weakening our influence."<sup>2</sup> U.S. insistence on the earliest possible modernization of short-range missiles was also in order to avoid having the United States and its West European allies going separate ways on defense matters.

2. During a time of easing East-West relations, the West European allies increasingly considered their own interests in geopolitical terms. Such an increasingly strong sense of sovereignty weakened U.S. influence in West Europe. In recent years, the United States and the USSR held several summit meetings, and, on quite a few major issues affecting European security, the United States did not seek the views of its West European allies in advance. In October 1986, when the United States reached an agreement in principle on the intermediate-range missile issue, it bypassed its allies to engage in diplomacy over their heads. Such a cavalier way of doing things aroused universal dissatisfaction and indignation in West European countries, and it also made them realize that both the easing of tensions and the controversy between the United States and the USSR grew out of their strategic needs and served their own personal interests. The security and stability of the European region could not be entrusted entirely to the superpowers. European countries should play a greater role in international affairs; they should seek new ways to safeguard their own security and stability. For a long time, a longing for enduring peace existed universally among the peoples of all countries of West Europe, which had gone through the suffering of two world wars. Gorbachev's policy of withdrawal from abroad and his peace offensive happened to coincide with these feelings of the people of Europe. Furthermore, for various reasons, including geographic, historical, and cultural ones, as well as economic interests, West Europe always held a more positive attitude than the United States about developing relations with the USSR. On the short-range missile issue, the FRG Government, which was to hold a general election in 1990, decided that a decision now about the modernization issue would certainly not help the incumbent government's position in the general election, and it would also hurt progress toward the easing of relations with the USSR. If the short-range missile issue could be linked to a European reduction in conventional weapons, not only would it be possible to reduce to the minimum U.S. and Soviet nuclear forces in Europe, but the pressure that the FRG sustained from the Soviet military threat could also be reduced, while the confidence of the majority of the electorate could also be won. In view of the foregoing considerations, the FRG was first to oppose the United States openly. When

Baker visited the FRG, Kohl announced publicly that the modernization of short-range missiles had to "take Germany's interests into account," and the United States should not regard this matter as a test of the FRG's loyalty to NATO. Some other West European countries also came to adopt a stand in support of the FRG. The United States was very displeased with the ever stronger centrifugal tendencies that its West European allies, particularly the FRG, expressed toward Soviet policies. Secretary of State Baker stated clearly that the allies could strengthen the "European pillar" principle within NATO; however, the United States opposed starting all over again.

The fundamental reason for such a major change in mutual relations between the United States and the West European allies after going along together for 40 years of the cold war lay in a marked increase in West Europe's sense of sovereignty accompanying its steadily rising economic position. However, the West European allies usually proceeded from geopolitical interests with regard to issues having a bearing on Europe's security and defense, and they sought more right to speak out, and to change and increase gradually their strategic position and political influence, establishing a more equal relationship as a partner with the United States in NATO.

C. Under the new circumstances, the United States made attendant revisions in its policies toward the USSR, and it gained a basically common understanding about the USSR with the West European allies at the NATO chiefs-of-state conference on strategic issues. The United States also made some compromises on the short-range missile issue. All this played a major role in easing tense relations with its allies.

1. How to patch up its differences with the West European allies, strengthen unity, and decide on a strategy for the new circumstances was a stern challenge that the United States faced. Meeting this challenge required, first of all, a revision of its policy toward the USSR. It took four months for the Bush administration to review and consider U.S. foreign policy. On the basis of the changing international situation, it readjusted its policies and tactics toward the USSR, and its reevaluation of East-West relations narrowed its differences with its West European allies. The United States had been suspicious and undecided for some time about the important changes in the USSR's domestic and foreign affairs. When the Bush administration took office, while deliberating foreign policy, it continued to emphasize "seeking peace through strength." It maintained the need to be circumspect and realistic in handling relations with the USSR. It also urged its allies not to harbor illusions or take precipitate action with regard to the USSR. Following deliberations, U.S. policy toward the USSR was clarified, and the United States unequivocally called for a rather positive attitude in regarding the changes taking place in the USSR. It believed that the reforms being undertaken in the Soviet Union might not only lead the Soviet Union to a pluralistic path both politically and economically, but might simultaneously cause the USSR

to loosen control over other East European countries. This was clearly in keeping with long-term U.S. strategic objectives. In the course of deliberations, U.S. policy-makers naturally took into account the current state of Soviet-European relations, as well as the unfavorable consequences that might ensue should the United States not suitably readjust its policies. When U.S. Secretary of State Baker visited the USSR on 11 May 1989, he carried a letter from Bush to Gorbachev in which Bush praised the USSR's "changes of major significance that are even revolutionary," and he hoped that these reforms that promoted steady changes in the political climate would "continue and be successful." On 12 May, in a speech at Texas A&M University, Bush set forth a strategy that "goes beyond containment," no longer "simply containing Soviet expansionism," but calling for the application of Western value concepts and Western economic, scientific, and technical superiority to encourage and accelerate the Soviet Union's "increased openness and democratization," to bring the USSR gradually into the "world order." An official in the U.S. National Security Council believed that "going beyond containment is a positive reaction to Soviet reforms and a completely changed conception of U.S. postwar policy toward the USSR." The new policy toward the USSR that the United States espoused following the revision was fundamentally identical with the desire of most European countries to use the opportunity to develop relations with the USSR. Thus, it narrowed, to a considerable extent, differences between the United States and West Europe on this issue.

2. After entering the White House, Bush devoted more attention to improving the U.S.-European alliance. In U.S. foreign policy, relations between the United States and Europe occupied a "key position." The development of relations between West European nations and the USSR in recent years, particularly the enthusiasm West European nations demonstrated for trade and technical cooperation with the USSR, displeased the United States. The United States felt this could only help increase the USSR's overall strength and that it also hurt Western strategic security interests. It was for this reason that the United States urgently wanted to harmonize relations with its allies in order to safeguard U.S.-European unity and not give the USSR any opportunities it could use. Although the Bush administration had not been in power long, it sent the secretary of state and other officials shuttling back and forth to West Europe several times in order to listen more to the views of its West European allies on major issues regarding the USSR. In addition, it explained the U.S. position to the West Europeans, and offered assurances that the United States would do more to coordinate major problems with its allies and respect their views. The U.S. readjustment of policy toward the USSR, as well as its conciliatory posture toward its allies, mollified West Europe's dissatisfaction with the United States.

3. The United States made appropriate compromises at the NATO heads-of-state conference, which further

assuaged the conflict between the United States and Europe on the short-range missile issue. On 29 and 30 May 1989, the heads of staff of the NATO countries gathered at NATO headquarters in Brussels to study the new situation in East-West relations, and to discuss NATO's future defense thinking and disarmament moves in light of the Soviet disarmament offensive. The contention over the short-range missile issue that existed on the eve of the conference between the United States and the UK on one side, and other members of the alliance headed by the FRG caused the conference to open under a cloud.

On the first day of the conference, Bush produced the first major proposal for conventional arms control since taking office, a four-point proposal which included the following: 1) NATO member states insist that the Warsaw Pact organization accept the principal ground-equipment limitations that the West has proposed, including the retention by both sides of 201,000 tanks, 28,000 armored personnel carriers, between 16,500 and 24,000 artillery pieces, and the destruction of all equipment eliminated. 2) For the first time, the West proposed inclusion in conventional arms control of land-based combat aircraft and helicopters in the region from the Atlantic Ocean to the Ural Mountains, each side being required to reduce the number of such weapons to 15 percent of the total number of such weapons currently held by NATO, and to destroy the eliminated equipment. 3) The United States would reduce by 20 percent the number of combat personnel stationed in Europe; the maximum number of ground and air units that the United States and the USSR maintained outside their own territory in the region between the Atlantic Ocean to the Ural Mountains would thus not exceed approximately 275,000 each. This maximum limit on personnel would require a Soviet reduction in forces of 325,000 in Eastern Europe. 4) Using the foregoing proposals as a basis, both the Warsaw Pact and NATO should reach an agreement as quickly as possible on conventional forces in Europe. The USSR should make 1997 its goal, and the United States hoped to reach agreement within a half to one year, and to complete arms reductions in 1992 or 1993.

This chiefs-of-state conference was the second gathering of NATO country leaders since the signing of the intermediate-range missile agreement, and it happened to occur on the 40th anniversary of the founding of NATO. In addition, it was here that President Bush made his first major foreign affairs statement since taking office. The United States made a timely new proposal for reducing conventional arms, expressing for the first time a willingness to reduce air power, in which the West enjoyed superiority. The U.S. proposal not only helped promote progress on negotiations for conventional arms reductions in Europe, but also conformed to popular sentiment in all the countries of Western Europe for arms reductions. For this reason, the U.S. proposal won the applause of its allies. Bush's courageous proposal and his initiative to move ahead changed the passive situation of the previous several months that resulted from

preoccupation with a review of foreign policy and concentration on dealing with the Soviet peace offensive. At the same time, it put the ball in the Soviet court, gained the initiative in foreign policy, and allayed great condemnation of Bush as a wimp in the United States. The United States scored the most points in this meeting. The French newspaper *LE MONDE* termed Bush's proposal an indication of renewed U.S. vigor. Even FRG Premier Helmut Kohl, who had been at odds with the United States for some time, also acknowledged that this "outstanding and extraordinary" proposal "once again clearly demonstrates the leading position of the United States."

In addition, in order to ease the tense relations between the United States and Europe, the United States also made corresponding compromises on the document that the conference passed, titled "Overall Conception of Arms Control and Disarmament," the United States agreeing to delay until after 1992 a further decision on the modernization of short-range missiles. The United States also abandoned its early stand of refusing to negotiate with the USSR on short-range missiles. At the conference Bush expressed approval for negotiations, but also attached several conditions as follows: First, negotiations on short-range missiles must be linked to talks on conventional weapons, and negotiations on short-range missiles should wait until after agreement was reached in negotiations on conventional weapons and action initiated. Second, if agreement was reached on short-range missiles, it was to be carried out only after negotiations on conventional weapons were completed. Third, the USSR should reduce the number of its short-range missiles to 88; that is, the same amount as for the West. This U.S. concession satisfied FRG requirements. It enabled a temporary abatement of the bilateral dispute over short-range missiles, allayed internal quarrels, and made NATO's position secure. When the conference concluded on 30 May, NATO Secretary General Manfred Woerner announced that the conference had achieved "major successes," again demonstrating the unity of the alliance, as well as NATO's ability to meet current challenges.

D. The differences between the United States and Europe could not be eliminated totally, and frictions between them could break out from time to time in the future. However, long-range strategic interests of the allies working together would impel the United States and Europe to consult with each other and coordinate their positions in order to deal with the common threat.

Although marked progress was made on some major issues as a result of the efforts of the United States and the West European allies, this NATO heads-of-state conference that was hailed as "winning successes rarely seen in history," did not completely eradicate differences among individual countries over strategic security interests. One example was the "Third zero-point plan." Two of the documents that the conference passed avoided mention of this issue, foreshadowing the possibility that each country might interpret them differently in the

future. After these documents were published, the FRG believed that this showed the possibility that the "third zero-point plan" was not yet completely eradicated. As another example, the UK and France maintained reservations about the part of Bush's proposal for including combat aircraft in negotiations. On Bush's proposed timetable for completion of the Vienna disarmament negotiations within six to 12 months, Margaret Thatcher employed a rare disapproving tone to criticize this objective as "unrealistic," because, should negotiations bog down over complex technical details such as how to calculate weapons and nuclear inspection, "another disagreement will occur within NATO." Even more problematically, implementing Bush's disarmament proposals within a year and a half at the Vienna disarmament negotiations would also be no easy matter. Negotiations on the reduction of conventional forces differed, after all, from the destruction of intermediate-range missiles in that it not only involved the two superpowers, the United States and the USSR, but also the security interests of the countries of Europe. Quite a few Western diplomats and defense experts believed that "many differences were covered up at Brussels." With the continued warming of the international climate, cries for disarmament and peace grew louder. Because of the different individual interests of the United States and its West European allies, controversies over NATO security strategy would occur from time to time, and the widening and deepening of internal rifts was possible.

In order to ensure smooth implementation of the overall strategy, the United States will continue to devote an extremely high degree of attention to harmonizing relations with its allies. The United States understands clearly that "unless the West can achieve new unanimity on strategy, the United States will become a bystander to the process of disintegration of the old European order."<sup>3</sup> Consequently, on issues affecting Europe, particularly policy toward the USSR and defense, the Bush administration will listen to the views of its allies and will hold more political discussions and cooperate more closely with them in pursuit of a maximum degree of common understanding. Militarily, despite the need for West Europe to shoulder more responsibility and expenses because of internal U.S. economic difficulties, the United States will continue to reaffirm its defense obligations to West Europe. The United States will rely on this to maintain and expand U.S. influence on the allies, and bolster its position in disputes with the USSR. It will also guard against the USSR becoming a "third party" intervening between the United States and Europe.

Despite the important changes that have taken place in the position of West Europe, it must still maintain an alliance with the United States. The rapid strengthening of the economies, and of the scientific and technical strength of each of the countries of West Europe in recent years, as well as the unified market to be established within the European Common Market in 1992, will give each of the countries of West Europe a more solid economic foundation. In the future, they will express a stronger sense of sovereignty in international

affairs and greater independence from the United States. As for defense relations between the United States and Europe, the cry within the United States for a joint sharing of defense costs within the alliance is becoming increasingly loud. Furthermore, the United States is really no longer financially able to carry this burden; therefore, sooner or later, the United States will reduce its military presence in Europe. However, West Europe feels that, in the final analysis, the greatest threat it faces comes from the USSR. For a long time to come, in defense matters, West Europe will have to rely on the United States for joint resistance to the USSR. Moreover, in matters such as pressuring the USSR to make substantial concessions on disarmament, and promoting East European political and economic reforms, the United States and West Europe have numerous common interests. Similar strategic interests will enable the United States and its West European allies to weather

the "short-range missile crisis." In the future, U.S. relations with West Europe will develop in the midst of more frequent frictions and conciliations, new changes occurring steadily that merit serious attention; however, there will be no fundamental change in the general pattern of the alliance.

#### Footnotes

1. Television speech by U.S. Secretary of Defense Richard Cheney on 29 April 1989.
2. NEWSWEEK Magazine, 19 September 1988.
3. See article in the summer 1989 issue of POLICY STUDIES by Borden Paynes, deputy director of the U.S. Heritage Foundation and concurrently director of the Foreign Policy Studies Department.

**Expanded Defense Counsel Role Urged in Litigation**

90ON0334A Urumqi XINJIANG SHEHUI KEXUE  
[SOCIAL SCIENCES IN XINJIANG] in Chinese  
No 6, 15 Dec 89 pp 45-49

[Article by Zhu Cunfu (2612 1317 1381), Law Department, Xinjiang University: "Discussion on Improvement of Defense Lawyers' Position in Litigation"]

[Text] China's lawyer defense system is not only an important integral part of the country's criminal litigation system, but also an important ingredient in the strengthening of the country's socialist democracy and the building of a legal system. People frequently regard legal defense system legislation and implementation as a standard and a yardstick for evaluating progress in the democratization of society, and they regard the development and perfection of the legal defense system as a symbol of modern judicial democracy and civilization. Facts demonstrate that only when defense lawyers have genuine legal support can the important role of the defense system be carried out to the full. In judicial practice in China today, the role of lawyers in criminal litigation is looked down on and the legal position of lawyers is not respected. The reason for this, lack of ideological understanding aside, is closely related to the unsound state of the country's defense counsel system.

Both Article 135 of the nation's Constitution and Article 5 of the Criminal Litigation Code provide for a separation of responsibilities among public security, prosecution, and court organs in a mutually coordinated and mutually limiting relationship. A series of procedures and regulations guarantees and coordinates this relationship. However, neither the Constitution nor the law includes lawyers, much less stipulates the relationship between lawyers and public security, prosecution, and court organs. This is the crux of the reason why law enforcement organs and their personnel do not respect lawyers and the views of lawyers in criminal litigation in China. Thus, it is necessary to add an article to the criminal litigation code about the relationship of lawyers to public security, prosecution, and court organs, specifying that the relationship of lawyers to public security, prosecution and legal organs is one of with separate responsibilities, mutual coordination, and mutual limitation.

Some people suppose that a litigation relationship of separation of responsibilities, mutual coordination, and mutual limitation among public security, prosecution, and court organs does not apply to lawyers. Their main reason for this contention is that lawyers take part in criminal litigation as representatives of the accused in the exercise of his right to defense, and this differs from the exercise of investigation, prosecution, and trial authority by public security, prosecution, and court organs. The nature of authority, the responsibilities shouldered, and the organizational subordination are all different. Therefore, the lawyer retained by an accused cannot be placed on a par with judicial organs. There is

no relationship between them of a division of labor, coordination, and restriction. Such a point of view is wrong. A lawyer's participation in criminal litigation as a defense counsel is in an individual capacity. He neither represents "lawyers as a group" nor represents subordinate legal administrative organs. From this standpoint, lawyers do not differ at all from the personnel handling a case for public security, prosecution, and court organs. However, it is because the work of lawyers is conducted in the name of individuals that, once lawyers are retained by an accused and gain the status of a defense counsel, the law confers upon them litigation rights and they assume litigation duties. Thus, a litigation responsibility is established in which lawyers "sit as equals" with public security, prosecution, and court organs.

Article 28 of China's Criminal Litigation Code provides that "it is the responsibility of defense counsel to provide data and testimony that proves on the basis of facts and the law that the accused is innocent, or guilty of only a misdemeanor, or that facts mitigate or excuse criminal responsibility, thus safeguarding the accused's legal rights. This provision points out the responsibilities the law confers on defense lawyers and how defense functions are to be carried out in criminal litigation. Although lawyers' participation in criminal litigation derives from the criminally accused's right to protection, nevertheless, the defense lawyer is neither subordinate to the accused nor is he a spokesman for the accused. The lawyer carries out the defense function according to law, and this is the defense lawyer's sole function. Therefore, in order for lawyers to be able to carry out effectively the defense function that the law confers, the law should clearly recognize the reciprocal position of lawyers and public security, prosecution, and court organs, their division of responsibility, and their mutually coordinated and mutually restricting relationship. The relationship between lawyers and public security, prosecution, and court organs that we are talking about here means, of course, their work relationship when conducting criminal litigation. It has nothing to do with whether the relationship between lawyers and public security, prosecution, and court organs is one of the same character, the same subordination, and the same tasks. The view that holds that to recognize lawyers as having a position on a par with public security, prosecution, and court organs and a mutually coordinated and mutually limiting relationship with them in which responsibilities are shared is to deny the distinctions between lawyers and judiciary personnel, and a deprecation of the position and status of judiciary organs is clearly a mistaken one.

Ours is a socialist country in which lawyers are not "free practitioners," but rather workers for national laws whose every activity is for the purpose of protecting the correct discharge of national laws. Lawyers as well as public security, prosecution, and court organs have as their solemn duty the protection of the socialist legal system. Although each is responsible for different functions, their basic positions in criminal proceedings are completely identical. The unity of opposites that derives from this identical position but different functions determines that the relationship between lawyers and public

security, prosecution, and court organs is mutually coordinating and mutually limiting.

Mutually coordinating means that case workers in public security, prosecution, and court organs are responsible in criminal proceedings for correctly exposing criminal acts, correctly applying the law, punishing offenders, and ensuring that the innocent are not held criminally liable, and that criminal cases are thereby handled justly. Lawyers also stand on the side of the party and the people in criminal litigation. The professional position of lawyers is by no means understood by law enforcement personnel at the present time, nor does every lawyer have a clear understanding of it. The reason has to do not only with the level of understanding of the law by law enforcement personnel and lawyers, but is also attributable to the lack of clear-cut provisions in the law. Some people suppose that during legal proceedings only the prosecution has responsibility for analyzing and revealing the social harmfulness of a crime, and that lawyers only bring up material and opinions of benefit to the accused. Such a view is biased. The overall principle is that all legal workers are to stand on the side of the Constitution and the law in approaching and evaluating criminal behavior, and lawyers are naturally no exception. This is to say that, in arguing for the defense in criminal cases, lawyers are not to forget the interests of the country, society, and the people. Under no circumstances may lawyers contravene the facts and distort the law. What they are defending is not the criminal behavior of the accused, but the legal rights and interests of the accused. Therefore, lawyers, like law enforcement personnel in public security, prosecution, and court organs, have no choice but to condemn criminal behavior. Their defense statements should both profoundly and accurately review the social and political significance of the case, and reveal the subjective and objective reasons and conditions for commission of the crime, and also sincerely and diligently protect the legal rights and interests of the accused, as well as organically combine the two. This is to say that lawyers are not only retained to defend the accused, but that they also have a sacred responsibility to safeguard the socialist legal system. Thus, in the course of litigation, the relationship between lawyers and public security, prosecution, and court organs is one of mutual support, complete coordination, and joint accomplishment of criminal litigation tasks. In terms of form, lawyers and prosecutors engage in a battle of words, neither side giving way. In essence, however, both parties carry out the powers of their office to attain a common goal, working in coordination through debate to help the work of the opposite party. The viewpoint that maintains that lawyers' defense consist of "finding fault," "nitpicking," and "putting on a rival show with public security, prosecution, and court organs" is without a legal and theoretical basis.

Mutually limiting means that the relationship between lawyers and public security, prosecution, and court organs is limiting. This is a basic requirement of a socialist legal system. China's socialist legal system

should be a highly democratic and highly scientific legal system. In order to advance the democratization of the country's judicial work to ensure the smooth performance of the country's criminal litigation tasks, the country's criminal litigation law should possess a legal system that is self-regulating and self-revising. Its self-regulating and self-revising functions are manifested in the judicial systems of public security, prosecution, and court organs, and also in the blending of the opposites of the prosecution and defense functions into a system of specific litigation procedures. Although the mutual limitation among public security, prosecution, and court organs may enable the inadequacies and mistakes generated in a previous litigation procedure to be remedied and corrected in a later procedure, we also realize that this legal guarantee is not sufficient by itself. If the public security, prosecution, and court organs all make the same mistakes in a case, the defense line that defense counsel provides can protect against error and avoid a miscarriage of justice. Because public security, prosecution, and court organs are enforcement organs that conduct criminal litigation, the handling of public prosecution has to be completed through the joint efforts of the three organs. Thus, when the three organs emphasize coordination in the handling of cases, to a certain extent, limitation falls by the wayside. This is not the case for the lawyers. They are not an organ or an individual charged with responsibility for handling cases; instead, they perform a defense function. Therefore, they are not prone to be constrained by what the investigation organ and the prosecution organ believe to be the facts or their fixed views about the case. They proceed from the angle of the defense, using investigation and analysis of the case to form an opinion that differs from, or is not entirely identical to, that of the prosecution. This enables them to avoid the same mistakes made in the investigation and prosecution and, thus, they are able to set forth explanations and reasons to correct prosecution errors, enabling the court to arrive at the truth from the differing views of the prosecution and the defense and come to a just judgment in the case. Therefore, the limitation of lawyers in public security, prosecution, and court organs is truly an important requirement that is indispensable to the inherent functioning of criminal litigation procedures. If the role of this limiting role of lawyers is abandoned or belittled, extremely harmful consequences may ensue for criminal proceedings. Naturally, the limiting relationship between lawyers and public security, prosecution, and court organs is reciprocal. Since an improper prosecution can be pointed out and clarified by defense lawyers, if the defense is improper, there is no doubt that prosecutors should also make a refutation and clarification. Only through this kind of thorough and rigorous mutual disputation can correct ideas be obtained to handle cases. This provides full expression of the self-limiting and self-revising function inherent in criminal litigation law.

Making full use of the role of lawyers' functions requires explicit provisions that the relationship between defense lawyers and public security, prosecution, and court

organs is one of a division of responsibilities, mutual coordination, and mutual limitation in legal proceedings. The independent position of lawyers as main elements in criminal proceedings must be affirmed and appropriate legislative adjustments made in the procedural system for lawyers to take part in criminal defense work, expanding lawyers' procedural authority in criminal defense and giving them genuine legal protection in the discharge of their responsibilities. Specifically, this will require doing work in the following several aspects.

First, defense of the accused is to be conducted without exception by lawyers. According to provisions of the law in China, the accused have the right to defense. Not only may they defend themselves, but they also have the right to retain lawyers or other citizens for their defense. Practice has shown that only when the right of the accused to defense is entrusted to a lawyer can it be fully exercised. When prosecuted for a crime and subjected to criminal investigation by judicial organs, quite a few accused persons have been subjected to various coercive actions restricting their freedom of person, thereby placing them at a very great disadvantage. Moreover, because the accused may be afraid and lack knowledge of the law, this will inevitably affect adversely the exercise of his right to a defense. Under these circumstances, only when the accused obtains a defense lawyer versed in the law and who is in a position of equal footing with the prosecution to provide legal assistance can the accused's right to defense that the law provides be fully exercised and his legal rights and interests be genuinely safeguarded. If a person from a people's organization or from the accused's work unit is recommended, or should a citizen act as the defense counsel with court approval, since such people frequently are not versed in the law and lack defense experience, they will generally find it difficult to conduct defense work competently.

Some people suppose that a lawyer should serve as the defense counsel in public prosecution cases, but that in private prosecution criminal cases either a lawyer may be retained or a close relative of the accused or a guardian may be designated to serve as the defense counsel. If a close relative or a guardian of the accused serves as the defense counsel, since he usually does not understand the law, may fear becoming involved, or is apprehensive about being implicated with the offender, he will not know how to conduct a defense and will not dare to argue rationally. In addition, defendants who lack lawyer status cannot enjoy a series of litigation rights that the law accords to lawyers in the discharge of their duties. This will be bound to cause very great difficulties in the discharge of their function as defense counsel for those who are not lawyers, and the quality and outcome of the defense cannot help but be very adversely affected. Thus, the law should clearly provide that, in both publicly prosecuted and privately prosecuted cases, the accused should either retain a lawyer or a lawyer should be designated defense counsel, unless he refuses to be defended by a lawyer.

Second, from the time that the accused is accused, he should be permitted to retain a lawyer or a lawyer should be appointed to help him exercise his defense rights.

Article 110 of China's Criminal Litigation Code provides as follows: "After the people's court has decided to hold a trial, a copy of the People's Procuratorate court indictment is to be presented to the accused no later than seven days before the trial, and the accused is to be notified that he can retain defense counsel, or, when necessary, the accused may designate a defense counsel." This means that the accused can obtain the help of a defense lawyer according to law only after the people's court has decided to hold a trial, and that, prior to this time, all the defense rights that the accused enjoys according to law cannot be fully exercised because he has not obtained the help of a lawyer. In addition, once a lawyer is retained, a lot of pretrial preparations, such as completing the examination of files, meeting with the accused, conducting necessary investigation, and drafting a defense brief have to be done within the short period of several days. In event of a weighty and complex case, it is simply impossible to complete this pretrial preparatory work. This forces lawyers to appear in court without being fully prepared and without being able to present a trenchant and precise defense. This is greatly at variance with the provisions of the law about guaranteeing full exercise of the right of appeal. One has to say that this is a great shortcoming in the country's defense system legislation.

In order for defense lawyers to begin to take part in criminal proceedings at the investigation stage, a clause will have to be added to the Criminal Litigation Code guaranteeing full exercise of defense rights to the accused. This means that when a public security organ interrogates an accused, it should notify the accused's defense lawyer to appear in order to listen, and the lawyer should have the right to ask the public security organ to rectify any matter in contravention of the law in the course of the interrogation. When a People's Procuratorate court decides not to waive indictment, the defense lawyer should be notified at the same time as the accused. Should the accused, for valid reason, not accede to the procuratorate court's decision, the lawyer should have the right to help the accused file an appeal. If the indictment waiver decision is wrong and the accused does not file an appeal, the lawyer has the right to call for a reversal by the procuratorate court at a higher level. From the time he is retained or designated defense counsel, the lawyer has the right to meet with the accused and to carry out investigations and collect evidence. During the investigation and indictment stage, determinations made by public security organs or a people's procuratorate court about evidence should be told to the defense lawyer. If the lawyer files an appeal, the determination may be amended or revised. In this way, the defense lawyer can become involved in the proceedings at the earliest possible time and be able to function as an observer of the legality of the entire proceedings in order to prevent a miscarriage of justice as a result of the use of

third-degree measures, and he will also be in a good position to become completely familiar with the case, preventing subjective bias. This will enable lawyers to have ample time for pretrial preparation and to form, on the basis of the facts and in accordance with law, a fairly well-developed defense concept and a fairly complete defense rationale. At the same time, they can work together with public security, prosecution, and court personnel to instruct accused persons who are guilty to admit their guilt, submit to the law, and accept interrogation and trial. Instructing the accused to reply accurately to the questions of public security, prosecution, and court personnel makes it possible to determine the true facts of a case promptly to ensure that criminal litigation is conducted smoothly.

Third, provision should be made for defense lawyers to enjoy the right of counterappeal (also termed independent appeal). By this is meant that they have a right to file a counterappeal to bring about a second trial procedure when the accused and his legally designated representative have not filed an appeal to a higher court, when a defense lawyers believe that the first trial decision or ruling of a people's court was wrong in terms of either the conclusions reached on the basis of the facts or application of the law, thereby causing a violation of the legal rights and interests of the accused.

According to the provisions of Article 129 of China's Criminal Litigation Code, only when the accused agrees can a defense lawyer file an appeal to a higher court; he has no independent authority for appeal to a higher court. This is unjust. Since the legal position of a defense lawyer and of a public prosecution organ are equal, this should be expressed legislatively in legal rights and in the procedure system. When a People's Procuratorate court believes that a People's Procuratorate court at the same level made mistakes during the first trial or ruling, there is no corresponding system for ensuring the filing of a counterappeal with the People's Procuratorate court. Defense lawyers have no counterappeal authority. This is both disadvantageous to safeguarding the legal rights and interests of the accused and to ensuring that the law is applied uniformly and correctly. It also damages the prestige and reputation of the socialist lawyer defense system.

The conferring by law of the right to counterappeal on defense lawyers is an extension of lawyers' defense rights, and it is also a means whereby lawyers can reflect their views to a people's court at a higher level. It benefits the people's court in being able to hear the opinions of both the plaintiff and the defendant in trials, take into full account the details of a case, overcome preconceptions, and bring a halt to subjective and formalistic phenomena such as "deciding first and trying later."

Fourth, in the course of handling appeal cases as a proxy, lawyers should enjoy a proxy's right of appeal and right of reappeal. Article 163 of China's Criminal Litigation Code provides as follows: "In criminal law enforcement,

if prison and labor reform organs believe a mistake was made in sentencing, or if the offender files an appeal, a request should be forwarded for handling to a People's Procuratorate court or to the people's court that conducted the original trial." However, the Criminal Litigation Code provides no corresponding regulations about whether a People's Procuratorate court or the court that originally conducted the trial is to handle a matter after a prison or labor reform organ has "forwarded a request," or how it is to handle it. Therefore, the "forwarding of a request" by prison and labor reform organs has no binding force whatsoever. When appeals by numerous prisoners go unanswered and are not properly resolved, they ask a lawyer to act for them in filing an appeal. However, whether lawyers should accept commissioning by a prisoner and his relatives, and what legal rights a prisoner's appeal should enjoy in the execution process, as well as what rights of appeal a lawyer should enjoy in proxy appeal cases are not stipulated in the existing criminal code or in the Temporary Regulations for Lawyers. In practice, after accepting commissioning by a prisoner and his family, except for writing an appeal for the prisoner, it is very difficult for a lawyer to take part in legal proceedings as a proxy for the appellant. A whole series of problems in examining materials in files, meeting with the prisoner, and investigating to obtain evidence has not been addressed. The reason is that the law does not confer on lawyers proxy appeal rights and reappeal request rights.

In order to carry out a consistent policy of "all wrongs must be righted," and to improve steadily the quality of judicial organs' handling of cases, the laws should provide specific provisions permitting lawyers to accept retention by appellants and to file proxy appeals. The law should provide that, in appeal cases, lawyers have the right to examine files, to investigate to collect evidence, and to meet with criminals serving sentences in prison in a labor reform organ. Should a lawyer find an error in a sentence or ruling that already has the effect of law, he should have authority to file a "reappeal request" to serve as a source of data and a basis for a people's court to propose trial oversight procedures. Once a people's court has received a lawyer's reappeal request, it should promptly transfer files for examination. If a mistake has really been made, retrial should be done in accordance with trial oversight procedures. In a people's court retrial of a case according to trial oversight procedures, no matter whether the retrial process uses the procedures of the first or second trial, lawyers should have the right to take part in criminal litigation in their status as the accused's defense counsel to protect the accused's legal rights and interests.

Thus, lawyers would be vested with proxy appeal rights and reappeal request rights by legislation. Lawyers would be able to provide prompt feedback information to judicial organs on decisions and rulings by people's courts that already have the effect of law, setting forth appeal arguments in the seeking of truth in facts to help People's Procuratorate courts and people's courts

promptly discover and correct errors. It would also ensure that innocent persons are not criminally prosecuted and that criminals are duly punished, and it would advance the education and remolding of criminals.

If the law recognizes a legal relationship between lawyers and public security, prosecution, and court organs that provides for a sharing of responsibilities, mutual coordination, and mutual limitation, expanding the legal rights of the broad masses of defense lawyers, some people may possibly fear that lawyers may use these rights as a means of hampering investigations, prosecution, and sentencing once they are permitted by law to take part in litigation in advance from the investigation stage, and once they have the right to counterappeal. We feel such fears are unnecessary. China's lawyers work for the law and should have strict work discipline. If lawyers really act illegally to hamper criminal litigation in the course of their work, judicial organs have authority to demand that the legal office in which the lawyer works and judicial administrative offices render a decision to stop that lawyer from continuing to serve as defense counsel for the case, and handle matters accordingly. If a lawyer actually divulges important state secrets, conceals criminal evidence, or shelters criminals in criminal violation of the law, that lawyer should be prosecuted according to law. Actually, with the gradual perfection of the country's legal system and the strengthening of the lawyer corps, improvements in the lawyer defense system are bound to occur. The problem of improving the defense lawyers' legal position urgently requires solution, but how can one refrain from doing something necessary simply because one problem or another may crop up in the process of reform. What is more, as reform of the legal system deepens, higher and more severe demands are bound to be placed on lawyers. The ideological quality, professional quality, and defense credentials of lawyers are bound to improve steadily. Therefore, only through all-out promotion of lawyer defense system reform can the needs of criminal defense work in the new era be met. Moreover, reform of the legal position of defense lawyers by beginning with legislation is a prerequisite for reform of the defense system that will brook no delay.

#### Minister Says Stability Depends on Minorities

OW1302191390 Beijing XINHUA in English  
1032 GMT 13 Feb 90

[Text] Beijing, February 13 (XINHUA)—China can achieve lasting stability only if all its nationalities are united and stable, a government minister said here today.

Addressing the annual working meeting of leaders of provincial minority affairs, Ismail Amat, minister in charge of the State Nationalities Affairs Commission, said that the problems in the relations between nationalities should be dwelt with properly.

China has 55 minority nationalities and they are inhabited in areas accounting for 64 percent of the country's total.

"We must always be alert to the hidden troubles of nationality relations," he said, "and try to eliminate them with careful studies and appropriate strategies.

"We must take good care that ethnic differences do not intensify. They must be taken under strict control when they appear."

He said it is quite natural that the slogan "the Han people cannot exist without the ethnic minority people and the minority people cannot exist without the Han people" should take root among the people of all nationalities, especially the youth.

Ismail Amat of the Uygur nationality reminded the 200 people at the meeting that factors of instability still exist in relations between nationalities. They are caused largely by the separatists and the anti-communist party and anti-socialist forces at home and abroad, he added.

The minister asked all local officials to keep clear heads, to handle the problems of nationality relations with skill and to rely on the cadres and masses of all nationalities to strengthen the foundation of national unity.

#### CPPCC Members Discuss CPC Multiparty Cooperation Document

OW1302210290 Beijing XINHUA Domestic Service  
in Chinese 1256 GMT 13 Feb 90

[By RENMIN RIBAO reporter Li Dejin (2621 1795 6855) and XINHUA reporter Sun Rong (1327 0516)]

[Text] Beijing, 13 Feb (XINHUA)—Today, the fourth meeting of the Standing Committee of the Seventh National Committee of the Chinese People's Political Consultative Conference [CPPCC] continued to discuss the "Opinion of the CPC Central Committee on Persisting in and Perfecting the System of Multiparty Cooperation and Political Consultation Under the CPC Leadership."

Cheng Siyuan, vice chairman of the CPPCC National Committee, said at the discussion that the system of multiparty cooperation under the CPC leadership is a choice made by the Chinese people themselves. History over the past 40 years has proved that our socialist cause develops quickly when the CPC and the democratic parties are cooperating well, and it suffers setbacks if they fail to do so. Since the 3d Plenary Session of the 11th CPC Central Committee, the CPC and the democratic parties have cooperated well, and so we have made great achievements in reform and opening to the outside world.

Sun Fuling, member of the Standing Committee of the CPPCC National Committee, said, "In my opinion, many questions arising in the implementation of the 'Opinion' of the CPC Central Committee have to be resolved through the coordinated efforts of party and government departments. First of all, government departments should further enhance their understanding of the important roles played by the democratic parties,

the Federation of Industry and Commerce, and the CPPCC in social and political activities. Second, to enable CPPCC Committee members to participate in the administration and discussion of state affairs more successfully, the departments concerned should make it convenient for them to learn the relevant facts. On the other hand, members of the democratic parties and the CPPCC Committees themselves should also conduct in-depth investigations and studies. This is the only way to avoid the problem that their opinions and suggestions are not in line with reality."

Huang Daneng, member of the Standing Committee of the CPPCC National Committee, said that, to better implement the guidelines contained in the document, the work of the CPPCC in the future should be "ample" political consultation and "effective" democratic supervision. Political consultation must be carried out before adoption of decisions on important principles and policies related to our national economy and the livelihood of our people, rather than in the course of or after such decisions. As for the valuable proposals made by CPPCC Committee members, the departments concerned should give particular attention to them. Sun Chengpei, another

member of the Standing Committee of the CPPCC National Committee, said that in implementing the "Opinion" at the present time, the democratic parties are faced with the problem that their members are old and their organizations are unsound. He suggested that the CPC Central Committee see to it that the "Opinion" is put into practice by leading party and government organs at all levels. Meanwhile, journalistic, propaganda, education, and publications departments should do successful propaganda work. In addition, departments concerned should assist the democratic parties in reinforcing themselves in various ways, including the absorption of new cadres into the party.

Speeches were also made at the meeting by Ge Zhicheng, Fang Rongxin, and Zhang Bilai, and members of the Standing Committee of the CPPCC National Committee.

Wang Renzhong, vice chairman of the CPPCC National Committee, chaired today's meeting. Among those present were Fang Yi and Sun Xiaocun, vice chairmen of the CPPCC National Committee; and Song Demin, acting secretary general of the committee.

## NATIONAL AFFAIRS, POLICY

### Economists Discuss Economic Reform Theory

HK2911043089 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 10, 20 Oct 89 pp 3-16

[Article by the Study Group of the Institute of Economics, Chinese Academy of Social Sciences: "Reflections on the Theory of Socialist Economic Structural Reform"—dated September 1989. This study group is headed by Comrades Zhao Renwei (6392 0086 0251) and Mao Tianqi (0379 1131 0796). The article was drafted by Comrade Zhang Delin (1728 1795 7207) and revised by Comrades Zhao Renwei and Mao Tianqi. Comrades Dai Yuanchen (2071 0954 2525), Yang Changfu (2799 7022 4395), Yang Zhongwei (2799 0112 0251), Fan Gang (2868 4854) and Du Haiyan (2629 3189 3601) took part in the discussion.]

[Text] China's 10 years of socialist economic structural reform has involved gradual explorations and development through practice, while the theory of economic structural reform has been continuously explored and advanced on the basis of upholding the four cardinal principles and persisting in the practice of reform and opening the country to the outside world. Although we have made mistakes in the course of reform and development, and certain deviations have been registered in our theoretical explorations, it does not mean that the line and principles formulated by the party since the 3d Plenary Session of the 11th CPC Central Committee are wrong. Neither does it suggest that the overall objective and orientation of the policy of reform and opening the country to the outside world, and the related theoretical explorations, are also wrong. Deng Xiaoping and other leading comrades of the Central Committee recently reiterated that China would not change its line and policy of reform and opening the country to the outside world. This provides us with a clear pointer in our endeavor to reflect on this theory in a more level-headed, profound and all-round manner.

#### I. On the Choice of the Target Model

1. The course of actual reforms demonstrates the necessity and importance of choosing the right target model.

To be frank, because China had little experience and was not theoretically well-prepared when it first launched the economic structural reform, it is impossible to have a clear and definite objective at the outset. This is something determined by the actual conditions in China. Hence, between 1978 and 1984, China's reform was basically at its experimental and exploratory stage. A major theoretical and practical problem which the economic theory circles found at the beginning of the reform and during the course of reform was whether or not it was necessary, in economic structural reform, to choose a particular target model.<sup>1</sup> Through years of exploration and contention, negation of the target model, that is, the theory that there is no need to choose a target model and

that we only need to "plan as we go along" or "make a concentrated go in one particular area and wait for the impact to filter through," has given way to affirmation of the target model. From being muddled about the target model, that is, the idea of "open-ended reform," we have come to realize the need for a definite target model. Reforms based on intuition have given way to rational reforms decided through serious deliberation. These are major theoretical breakthroughs. In the actual practice of carrying out reform, having a definite target model for the economic structure will help overcome blindness, enhance our self-awareness, strengthen our conviction in reforms and prevent vacillations. Having a more clearcut target can also help avert two possible tendencies, that is, it can help prevent the situation where reform is lured away from the socialist direction and led onto the capitalist road, and help steer clear of the possible return to the ossified traditional structure. On the theoretical level, the general principles of the systems theory tell us that a system without "target value" is a disorderly system and that the operation of such a system will definitely be disorderly due to the lack of a definite target. However, on the basis of the integration of theory and practice, Marxism has always maintained that practice without theoretical guidance is blind practice. In our opinion, the target model for reform is not something that sets down all the specific details for economic reform, but is rather a theoretical abstraction of a specific economic structure. Thus, a target model is nothing more than a summation of the basic guidelines of a specific economic structure, the sum total of the basic frameworks and major patterns of movement of an economic structure, while reform is essentially nothing more than a change of the socialist economic structure from one model to another. Many of the stop-gap decisions or piecemeal reform measures taken in the course of the economic structural reform in recent years due to the lack of a clearcut target model, as well as the resultant difficulties that have made the operations of subsequent reforms tough fully bear witness to the importance and necessity of choosing a specific target model.

2. The national conditions on which the target model for China's structural reform are based.

If we say we have already reached some sort of consensus on the question of whether or not we need to choose a target model for China's economic structural reform, then what remains to be discussed is how, or on what basis, should this target model with Chinese characteristics be chosen. On this question, the complexity and variability of the socialist economy, as well as the resultant contradictions and dilemmas, have made the strategic choice that much more difficult.<sup>2</sup> Due to the lack of sufficient understanding and analysis of China's national conditions, or an obsession with the patterns of movement and vested interests under the traditional structure, or a fancy for the institutional structure of the market economy, there are bound to be extreme views: Either lavishly praising the market-economy countries

for their structural models which are based on privatization and are thoroughly market-oriented, or sticking to the planned product-economy while rejecting the traditional socialist model with the market playing a regulatory role. As proven by practice, the choice of a country's structural model must primarily be based on the basic national conditions of that country. In terms of nature, we must choose within the limits of the socialist economic structure. Hence, in our economic structural reform, we must adhere to the socialist orientation and uphold the principles of taking public ownership, distribution according to work, and so on, as the main body. Although our state enterprises have long been troubled by shortcomings such as poor efficiency and returns, and our reforms have been aimed at fully arousing the vitality and competitiveness of these enterprises, it does not imply that the ultimate target of our reform is to turn our state enterprises into private enterprises. Any solution which seeks to fundamentally change the foundation of the socialist economy and privatize the property of the whole people is impractical and contrary to the objectives of the socialist structural reform. However, it is very necessary that we study how we should readjust the ownership structure and seek a new form for the realization of the public ownership system as well as a new mechanism for the realization of distribution according to work within the basic framework of socialism so as to make these work more efficiently and with greater vitality. We had the latter in mind when we discussed reform of the ownership system. In terms of dialectical relations, when we choose our target model, we must base ourselves on the integration of the premise on which the internal operating mechanism is formed with the reform of ownership relations, the integration of microeconomic invigoration with macroeconomic control, the integration of planning with the market, and the integration of encouragement with restrictions. At the same time, we must also pay attention to the integration of short-term measures with long-term measures, and the integration of local reforms with overall supporting measures. In terms of temporal sequence, when we choose the target model, we must set our eyes on the time span of the stage of socialist development which China now finds itself in. We must, on the one hand, see that the change from one economic structural model to another is not an "infinite" historical process but is rather an important task in the primary stage of socialism. On the other hand, we must also recognize that this change indeed involves a fairly long historical period which runs through the entire primary stage. During this period, we must also consider the order and priority of the changeover of models and the implementation of specific reform measures, their effective time limit, and so on. In spatial terms, since China is such a vast country and there are such vast differences between regions and sectors, when we choose our target model, we must pay special attention to spatial compatibility and local characteristics, and be aware of the similarities and differences between rural and urban areas, coastal and inland areas, and developed and underdeveloped areas. In terms of methodology, when we choose our

target model, we must integrate theory with practice and combine the task of summing up our own experience with that of learning from the examples of others. In short, we believe that we should proceed from China's basic national conditions and explore in the course of reform in order to establish an economic reform theory with Chinese characteristics, rather than simply imitating and copying the experience and models of others. We should avoid vacillation between different objects of emulation in practice or being "overanxious for quick results in practice and undiscerning in theory."

### 3. The selection trend and basic framework of the target model.

As early as in 1979, the theoretical circles put forward three tentative plans for structural reform in light of problems with the economic management structure in China. The first plan favors centralized management with the various central ministries playing the main role, the suitable enlargement of the managerial powers of the localities and enterprises, and the adoption of some economic measures within given limits. The second plan favors decentralized management by the provinces, municipalities and autonomous regions under the unified leadership of the central authorities. The third plan favors the integration of planning with the market, the enlargement of the decisionmaking powers of enterprises under state guidance, and the rational division of power between the central and local governments on this basis.<sup>3</sup> It was not until the 3d Plenary Session of the 12th CPC Central Committee held in October 1984 that the following program was put forward on the basis of continuous efforts at summing up practical experience and deepening one's theoretical understanding: The socialist economy in China is a planned commodity economy based on public ownership; the general objective of our economic structural reform is to energetically develop the socialist commodity economy; the central task of the economic structural reform as a whole is to invigorate enterprises; and reform of the pricing system is the key to the success or otherwise of the entire economic structural reform. This shows that we have reached a fairly clear and unanimous understanding on the overall plan and choice of the reform target. From October 1984 to the convocation of the 13th National Party Congress in October 1987, the focus of reform in China was shifted from the rural to the urban areas, and it was decided that the central task of reform would be to invigorate enterprises. Preliminary reforms were carried out in all spheres, from the microeconomic mechanism to the macroeconomic structure, from the system of production and circulation to the system of social distribution, from the system of planning to the systems finance and taxation, monetary affairs, pricing, labor wages, foreign trade and material supplies. The second step of the rural reform was also launched. These reform measures caused the theoretical circles to shift their understanding of the target model for structural reform from one which concentrates on the division of managerial powers between the central ministries or between the local

governments to one which concentrates on how best to facilitate the development of the socialist planned economy and the organic integration of planning and the market. In theoretical explorations, the economic theoretical circles benefited enormously from the comparative study of economic structures. Some comrades analyzed the "DIM" approach of Neuberger and Duffy, investigated the "octahedrite" resolution advocated by Lindbeck, studied the classification of the four socialist economic models based on the decentralization and centralization of decisionmaking powers advocated by the socialist economist (Bruce), and examined Kornai's method of proceeding from the economic coordination mechanism to classify the two levels and four models of the socialist economy. On this basis, they derived the "quintic," and even "sextic," "spectrum" of the socialist economic structural model: The supply system of military communism, the traditional model of centralized planned economy, the improved model of centralized planned economy, the indirect administrative control model, the model based on the organic integration of planning and the market, and the model of market socialism. It is obvious that these comparative studies cannot but become the referential coefficient in our choice of the target model for China's economic structure. From historical experience, we know that the target models at the two ends are not recommendable. Since the third and fourth models are basically "improved" versions of the second model, they can only be regarded as transitional models for the economic structural reform and cannot be taken as target models. From the fifth and remaining theoretical model of integrating planning with the market, we have, on the basis of China's national conditions, established the target model for a socialist economic structure with Chinese characteristics. The basis of this model is "planned commodity economy." Misunderstanding, prejudice or differences in respect of the essential characteristics of the highly epitomized idea of "planned commodity economy" should not constitute any theoretical interference in our efforts to search for a target model. Here, upholding the most rudimentary Marxist principles on the commodity economy is our point of departure in designing the specific target model. From this starting point, the target model will have "market coordination through macro-economic control under the guidance of state planning" as its theme, and will have the systems of ownership, decisionmaking, interests, regulation and control and organization as its basic contents. It is different from China's traditional model and is unlike the model chosen by certain socialist countries in their reform. At the same time, it is of a fundamentally different nature compared with the economic system of capitalist countries. At the 13th National Party Congress in October 1987, our party summed up in its resolution that under the new economic mechanism of the new target model, "the state regulates the market, and the market guides enterprises." This "basic framework for a planned commodity economy" gave us a relatively clear objective in our economic structural reform.

## II. On Planning and the Market in the Economic Regulation and Control System

1. The transition from the theory of socialist noncommodity economy to the theory of socialist commodity economy.

The resolution of the 3d Plenary Session of the 12th CPC Central Committee pointed out that the socialist planned economy is a planned commodity economy based on public ownership, in which the law of value must be consciously followed and applied. This is our party's scientific summation of the socialist economy, a major development of Marxism, as well as the theoretical basis for our economic structural reform. Seen from the logical process, this conclusion was arrived at after paying a high cost in practice and after much hardship in theoretical study. As far as the former is concerned, we have been mechanically following the blueprint envisaged by the founders of Marxism and practicing the "Stalinist mode" of socialism all these years. Although we have achieved tremendous achievements in the early days of the republic through the planned economy which relies on administrative means, yet, as the modern economy becomes increasingly socialized, information-based, intensive and internationalized, the drawbacks of the traditional model also become increasingly manifest. The continued development of the socialist economy is again faced with a major choice. As far as the latter is concerned, in the decades before 1978, a major flaw of the traditional socialist economic theory which held the sway in China was that it only studied the relations of production and overlooked the study of other productive forces and their ties with the relations of production. This static approach of studying socialism in isolation from the development of the productive forces led to "voluntarism" and "the natural economy—product economy concept" in economic theories. Since the 3d Plenary Session of the 11th CPC Central Committee, the economic theoretical circles have, under the guidance of the ideological line of "emancipating the mind and seeking truth from facts" championed by Comrade Deng Xiaoping, cast off old ideological shackles and done some rethinking on the traditional socialist economic theories in light of the actual practice of reform. The most fundamental achievement of their reflections is that they have step by step corrected the traditional theory of socialist noncommodity economy and established the theory of socialist commodity economy. The traditional theory of socialist noncommodity economy sets socialism against the commodity economy and confuses socialism with the natural economy; it also describes the planned economy and the law of value as mutually exclusive and equates the planned economy with mandatory targets. The theory of socialist commodity economy is at once the cornerstone of China's reform theory and the cornerstone of China's new economic theory.<sup>4</sup> The theoretical circles also have had active contentions over the interrelations between planning and the market as well as the economic regulation and control mechanisms resulting from different combinations. Some maintain that planning and the market are "opposed" or "impervious" to each other; others argue that the two are "colloidal" and "interpermeating"; still others see the

market as the pivot and link between enterprises and the state as well as the mechanism constituting the "three-in-one combination."

In light of the economic structural reform in China and certain tendencies which have surfaced in the current drive to improve the economic environment and overcome economic disorder, we believe there are a number of questions that merit clarification from the theoretical perspective: 1) Since 1984, the party has repeatedly stressed in its resolutions that the socialist economy is a planned commodity economy based on public ownership. This shows that the socialist economy is not a spontaneous and primitive market economy, and must always be subject to the guidance of state plans and relevant macroeconomic regulation and control. Otherwise, it will be very difficult to effectively guarantee the normal operation of the socialist economy under public ownership and the fundamental realization of the principle of distribution according to work. In particular, under the present situation where the old structure coexists with the new, and local interests are rapidly expanding and growing in rigidity, it is essential that the state takes appropriate measures to strengthen planned guidance and macroeconomic regulation and control during the period of economic improvement and rectification. In recent years, there has been an overall tightness in our economic life and economic order has been exceedingly chaotic. This is directly related to the fact that the original functions of planned regulation and control have been much weakened by the reform of the planning system, while the regulatory functions of the market are lacking in strength because the market system has not yet been fully established. These factors have combined to cause the feebleness of the functions and effects of the socioeconomic regulation and control system as a whole. In reality, China's socialist economic structural reform involves a protracted process. During this process, we must not only combine the long-term objectives of reform with the immediate objectives of reform, but must clearly distinguish between the possibility and time limit of the realization of these objectives. In other words, on the question of reform, we must try not to be overanxious for success and profits. We must bring into play the regulatory role of the market and persevere in market-oriented reforms. In the meantime, we must not renounce or fundamentally weaken the role of planned guidance and macroeconomic regulation and control. In other words, on the question of planning and the market, we must always uphold the premise that the socialist economy is a planned commodity economy based on public ownership. 2) The fact that we acknowledge the socialist economy as a planned commodity economy does not mean that we can call the socialist economy a complete market economy, or confuse it with the capitalist market economy. The system and basis upon which the socialist commodity economy and the capitalist commodity economy rely for their emergence and development are fundamentally different, and utilization of the market as a means of

regulation does not necessarily imply going in for capitalism. Thus, we must not blame regulation through the market for all evils, equate regulation through the market with capitalism and use these as an excuse to demand a return to the traditional structure just because some people have done their utmost to introduce the role of the market throughout the economy, or have consciously or unconsciously accepted the idea of the "convergence" of economic systems advocated by some Western scholars, or because there has been an overall tightness in our economic life and economic order has been chaotic in recent years due to various reasons. On the other hand, we are also opposed to the "theory of the omnipotent market" which maintains that all problems will be solved once restrictions on prices are lifted. We are also on our alert against the trend of bourgeois liberalization which attempts to bring about a fundamental institutional change in the name of market-oriented reforms. 3) A planned commodity economy is so called because it has the nature, basic characteristics and regulation and control mechanism of the socialist economy, but it is different from specific planning or actual operational guidelines. The latter can only be turned into a workable plan of implementation or an action under the guidance of the former, and through the deployment of systems and changes of measures. We must correctly handle the question of the integration of planning and the market in light of reality. As Comrade Deng Xiaoping recently pointed out: "We must continue to uphold the integration of the planned economy and the market. This policy will remain unchanged. In actual practice, we may strengthen or rely a little more on planning during the period of readjustment, and rely a bit more on the market at some other time. The idea is to be flexible. In the future, we will still combine the planned economy with the market."<sup>5</sup> 4) While acknowledging the formulation that the socialist economy is a planned commodity economy, it is still possible that people may come up with the following two extreme views: Maintaining that the socialist economy is primarily a planned economy, some people believe that we should make use of the relevant public ownership system and principle of distribution according to work to reform all aspects of the commodity economy that are not compatible. Maintaining that the commodity economy is the best form for developing the productive forces, some people believe that we should make use of the principles of the commodity economy to reform all aspects of the public ownership system, the principle of distribution according to work and the planned economy that are not compatible. The former in fact views the commodity economy as something essentially incompatible with socialism, something that exists outside socialism. The latter even sets the commodity economy against socialism. Both of these extreme views are wrong.

2. How to properly handle the interrelations between regulation and control through planning and regulation and control through the market forces.

Over the last 10 years, we have achieved notable progress in our market-oriented reforms. 1) In respect of the market mechanism, we have taken the first steps toward gradually opening and expanding different types of markets and establishing and nurturing the socialist market system in accordance with the requirements for the development of the socialist commodity economy. For our commodity circulation system, we have replaced monopoly operations with multichannel operations and enlivened the commodity market; for our materials supply system, we have developed the capital goods market; for our monetary system, we have established a central bank and enlarged the capital market; for our scientific and technological system, we have opened up the technology market; for our labor and employment system, we have replaced centralized allocation by the labor departments with the integration of centralized allocation and free choice of employment. In addition, we have also gradually developed the information and property markets. 2) In respect of the planning mechanism, the system of macroeconomic management is now undergoing a change from one which is mainly based on direct means of control to one which is mainly based on indirect means of control. In the management of industrial products and the distribution of goods and materials, the scope of mandatory planning, that is, the scope which is subject to the state's direct control by administrative means, has been greatly reduced. In pricing, the proportion of pricing by the state for both capital and consumer goods has also been reduced by a big margin. In April 1988, the government announced further reforms of state organs at the central level. These include the streamlining or merging of ministries and commissions under the State Council, the trimming of specialized economic management, and the readjustment and strengthening of departments responsible for comprehensive economic management, auditing, supervision, policy consultation and economic information.

The achievements we have made in the reform of the planning and market mechanisms cannot completely eliminate the concepts entertained by some in actual work and theoretical research that we have to reject the market forces because we are putting the emphasis on the planned economy, or that we have to reject the planned economy because we are relying on the market forces. As things now stand, if we regard the planned commodity economy as the characteristics of the socialist economy and as the theoretical basis for the new regulation and control mechanism or economic movement mechanism, and take the shift of emphasis in state economic management from direct control to indirect control as the end-result of the change of target models, then neither of the above-mentioned concepts are recommendable in theory or in practice. In other words, how we make use of the planning and market mechanisms and effect the change from a regulation and control mechanism that works on instructions from above to a new regulation and control mechanism are the crux of the problem. In our opinion, emphasizing the importance of invigorating enterprises and improving

the market system in the course of effecting a change of models does not imply that we can overlook macroeconomic management. Neither does emphasis of the role of the market imply that we can overlook or even ignore the role of the planning mechanism. The two are not mutually exclusive. Planned macroeconomic management, as the concentrated expression of the economic functions of the state, is the prerequisite for the invigoration of enterprises, which is central to the changeover of models. It is also the prerequisite for the improvement of the market system, which is the pivot of the changeover of models. What we mean by strengthening macroeconomic management is to shift the emphasis to indirect control; in other words, to carry out regulation and control mainly through control of the magnitude of value in the total volume and structure of supply and demand (that is, use the law of value as the criterion), thereby achieving coordination and balance in economic movements. To effect this shift, it is necessary to fulfill three prerequisites, that is, boost the maturity of the market, bring various economic parameters (particularly the price parameters) into better balance, and enhance the sensitiveness of enterprises to market signals. In this connection, there are four points that need further clarification.

First, we must not think that we can mechanically copy the macroeconomic management system practiced in Western countries, which has financial and monetary policies at its core, and regard it as our target model for the reform of our macroeconomic management system. It is true that we do not blindly reject the necessity and importance of drawing from the experience of the West. However, since the mechanism of macroeconomic regulation and control in every country is necessarily based on economic interests, and there are common interests that are linked with individual interests in an economic interest structure based on socialist public ownership, the state must have sufficient decision-making power and power of deployment in macroeconomic planning so it can coordinate the effective movement of the economic system as a whole. This is particularly true in China as it lacks the foundation of a developed commodity economy upon which the macroeconomic regulation and control mechanism of market-economy countries rely for its existence and operation. Hence, whether we look at it from the perspective of the nature of the system or from the perspective of the characteristics of our national conditions, we cannot mechanically copy the Western practice.

Second, we must not take the presence or the lack of state planning as an indication of the shift from direct to indirect regulation and control. The shift from direct means of regulation and control to indirect means of regulation and control does not suggest the removal of state planning. Rather, it suggests the change from control mainly based on mandatory planning to control mainly based on guidance planning. Mandatory planning coupled with administrative means of organization is the only form that bears the nature of direct administrative regulation and control. Guidance planning which

serves as the strategic basis of macroeconomic management is not of an administrative nature. The latter is not binding on enterprises, and its realization still depends on certain economic means. Hence, reform of the existing planning system, doing a good job of planning and making the plans more feasible and scientific remain indispensable and important aspects in the strengthening and improvement of macroeconomic management. The practice of indirect regulation and control with guidance planning as its hallmark does not imply the abolition of near and long-term economic plans.

Third, we must not indiscriminately blame regulation through the market for the present economic difficulties which are in fact the result of various complicated factors. In the operation of the commodity economy, hundreds and thousands of independent commodity producers are demanding the power of decision in matters of production, supply and marketing while the masses of laborers are demanding the right to make their own decision in the choice of consumer goods, jobs and place of work. These can only be fully guaranteed through the coordination of market forces. The new model, namely the "three-in-one combination" of enterprises, the market and regulation and control by the state, under which "the state regulates the market, and the market guides enterprises," really intends to use the market as the link between the former and the latter. This completely rules out the possibility that regulation and control through the market is in essence a return to the old structure. Due to the coexistence of the old and new structures and various other reasons, there are invariably friction between the two structures, clashes between different mechanisms, wastage of time, areas left unattended, and conflicts between regulation and control. The resultant feebleness in the state's overall power of regulation and control means that the questions of how to make effective use of regulation and control through the market and how to organically combine the two will inevitably be brought onto the agenda of the day. The target model for the economic regulation and control system represents the mechanism of economic operation, even the model for the economic structure as a whole. The reason two different mechanisms of economic operation coexist in the process of the changeover of economic structural models is that the traditional structure which basically rejects regulation through the market and the market mechanism is staggering along in practice. On the other hand, the actual state of affairs has determined that in our operational model we cannot bring about, in a single move, the market regulation and control mechanism under indirect macroeconomic control. Hence, we believe that in some areas of economic activities we should chiefly rely on regulation and control through state planning while paying attention to the law of value and introducing the market mechanism. In other areas of economic activities, we should chiefly rely on regulation through the market while accepting regulation and control through state planning. Alternately, we could try combining overall macroeconomic regulation and control by the state with stratified regulation

and control, external regulation and control with self regulation and control by the economic entities, vertical regulation and control from the top down with horizontal regulation and control by the hundreds and thousands of economic entities, and adopt a system of regulation and control which chiefly relies on economic levers but has the help of administrative means. These are possible options in the process of the effecting a change in the structural model. As the present price structure shows, the prices of about 65 percent of agricultural and farm products, 55 percent of industrial consumer goods and 40 percent of industrial capital goods are determined by the market, suggesting that about half of the commodity prices are regulated by the market to varying extents. Of course, in actual economic work, which is everchanging and full of intrigues and complexities, how to more effectively grasp the "crucial links" in measuring regulation through planning and regulation through the market is a problem awaiting further study.

Fourth, we must seriously analyze and scientifically handle the question of dual structure. Essentially, the economic structural reform involves the replacement of the old structural model by the new structural model. At present, China is in a stage where the old and the new structures coexist. This also happens to be the most difficult stage in our reforms. No one would deny the fact that the coexistence of the old and new structures has led to double standards in microeconomic decisions and in macroeconomic regulation and control, factors which are responsible for friction and chaos in our economic life. The double-track pricing system, as the concentrated expression of the dual structure, has become the new target of reform. On the handling of the double-track system, we are now faced with a dilemma: While subjective and objective conditions for the elimination of the double-track system are lacking, its existence is the hotbed of nonstandard economies (such as "official profiteering" and "private profiteering") and the breeding and spread of corrupt practices. It has reached a stage where it simply must be eliminated because its existence has rendered the establishment of normal economic regulations and order impossible, and because it is the cause of general discontent and a sharp increase in political capital. Faced with this dual structure, we may return to the old structure and wait for another opportunity to carry out reform "in a package deal"; or maintain the status quo by striving to reduce the friction and clashes between the old and new structures and take this as the target model; or effect the transition to the new structure in one quick move; or clearly set our target, create the necessary conditions and strive to move onto the track of the new structure as quickly as possible. Objectively speaking, the coexistence of the old and new structures in our reforms has its objective necessity as well as subjective determining factors. The dual structure has indeed played a positive part in the course of reform (for instance, it facilitates the timely start of reform, helps reduce the impact of the reform, ensures

steady economic growth and helps accumulate experience for the completion of the great cause of reform). However, the dual structure is neither the target of our reform, nor should it be perpetrated. In practical terms, the dual structure, particularly the double-track pricing system, has close links with total demand and the hot topic of inflation. The objective logic is: As long as the problem of economic imbalance, where total demand greatly outstrips total supply, remains unresolved, and as long as inflationary price hikes are not curbed, it is unlikely that we can throw off the yoke of the dual structure in the course of the changeover of structural models and quickly effect the change from the old structure to the new structure. How we can promote the changeover of economic structures under existing socio-economic conditions in a way that can minimize friction and clashes in economic operations is a matter that urgently awaits seriously study. It is in our long-term interests to actively create a relatively relaxed economic environment and combine key reforms with supporting reforms, that is, properly handle relations within the "three-in-one combination" of enterprises, the market and state macroeconomic management. We should take the buildup of enterprise potential as the central task in the changeover of models, take the improvement of the market system as the pivot in the changeover of models, and take the shift of emphasis in state economic management from direct control to indirect control as the ultimate aim of the changeover of models.

### III. On the Division of Local Administrative Power in the Economic Interests Structure and the Question of Fairness and Efficiency in the Distribution of Income

1. It is necessary to actively create conditions for the development of the system of separate taxation in the division of local administrative power based on separate financial jurisdictions.<sup>6</sup>

Our economic structural reform touched on economic interests relations very early on. The readjustment of the interests pattern and the redistribution of interests between different economic interests entities in the process of economic reform are major difficulties encountered by socialist countries in their economic reform.<sup>7</sup> If we look at China's traditional economic interests mechanism, we will have no difficulty noticing that while emphasizing the uniformity of fundamental interests, the traditional interests mechanism lacks analysis of individual interests. The interests structure lacks stimulation and restrictions. The structure is twisted and the line of demarcation is indistinct. Based on an analysis of the inherent ills of the traditional interests structure, the division of interests was stressed and the systems of fixed quotas for localities and enterprise contracting were introduced in the urban economic structural reform. This gave new shape to the interests structure. We should say that the new system of separate financial jurisdictions introduced in 1980 was one of the earliest measures adopted in our economic structural reform. This system played a positive part in fully arousing the enthusiasm of local authorities and enterprises and in ensuring revenue

for the central authorities. In the years that followed, however, its drawbacks became increasingly more manifest and posed obstacles to subsequent reforms. This can be seen in the following aspects: 1) In terms of the overall direction, this kind of division of local administrative power based on separate financial jurisdictions was not in keeping with the direction of reform. What is more, there were increasingly strong indications that this had become the focal point of contradictions between total supply and total demand, the focal point of structural contradictions, and the bottleneck that slows down and hinders the deepening of reform. 2) In terms of investment, in order to increase revenue at their disposal, local governments imposed market blockades and vied with one another to enlarge the scale of capital construction. In fact, local governments had become the cause of investment expansion, the source of overheated economic development. 3) In terms of economic structure, due to the fact that prices were not reasonable and market signals were distorted, local governments tended to put their investment in low-cost short-term projects that promised quick results under the guidance of the law of market profits. As a result, the infrastructure remained weak, the raw material industries were underdeveloped, and the industrial structure became increasingly lopsided. "A high degree of convergence" and "Matthew's effect" were both at work within the whole economic structure and were being intensified. 4) In terms of long-term interests, the intensification of the interests of local governments posed an obstacle to the smooth progress of reform. Contradictions between the interests of different regions prevented the formation of a unified market; activities of seeking benefits from price differences under the double-track pricing system hindered the development of the market mechanism; while the anticipated benefits of local governments and the resultant "local ownership" and "vassal economy," which are highly resistant to intervention, made it difficult for policies of macroeconomic regulation and control to take effect. These are major reasons why the present austerity program has not produced much effect. Although our diagnosis has been correct, considering the actual situation, we are still in a dilemma as to the course of action to be taken. When we first adopted this practice of division of local administrative power, an important guiding ideology was to arouse the enthusiasm of the localities. If we are going to stop this practice, for instance, do away with separate financial jurisdictions, what alternatives do we have in mind that can serve the purpose of arousing the enthusiasm of the localities? In other words, what "variant structure with the same function" are we going to choose? Moreover, since the system of separate local financial jurisdictions is compatible with the system of responsibility for enterprises, a transitional measure with relations of property rights yet to be defined, it is not the right time to effect immediate changes. If we eliminate the practice of separate local financial jurisdictions while continuing to practice the enterprise contracting system, the budgetary constraints on enterprises will become even softer. This

will no doubt increase the burdens of the central financial authorities and aggravate inflation.

Nonetheless, this does not mean that we have reached the end of our rope. We believe that it is of primary importance that we must choose a target model for the economic interests structure that is in conformity with our national conditions. This target model not only must have reasonable interests incentives and can arouse the enthusiasm of various economic entities, but must have the necessary interests constraints and coordination functions. In this way, the interests of the state, the collective and the individuals and the interests of different strata and groups can be satisfied, thereby ensuring the vigorous and steady operation of the national economy. This economic interests structure will have the development of the planned commodity economy as its starting point, and distribution according to work as its basic and cardinal principle. However, within given limits, it permits the existence of forms and mechanisms not based on distribution according to work to ensure the proper handling of relations between fairness and efficiency. In short, in addition to having basically uniform economic interests, which is an intrinsic characteristics of the socialist economic system, this kind of interests relations based on public ownership and distribution according to work is also characterized by the pluralism of its interests entities, the diversification of its interests sources, its monetary form of interests, and the standardization of its interests distribution. Based on this understanding of the target model for the interests structure, we believe we can adopt the approach of gradual transition to weaken the administrative functions and powers of the local governments in economic management, thereby gradually eliminating the institutional causes of overall imbalance and structural contradictions. On this basis, we should actively study the feasibility of introducing a system of separate taxation and create conditions for the introduction of this system. Under the system of separate taxation, everyone must pay tax to the central and local authorities in accordance with law irrespective of its affiliation, and all revenue must be divided between the central and local authorities. Since this system is a negation of the practice of dividing revenue and expenditure between the central and local governments on the basis of administrative subordination, it is beneficial to the elimination of the above-mentioned drawbacks resulting from separate financial jurisdictions.

2. On the question of the distribution of national income, we must try to make the cake as big as possible while carefully analyzing the question of the overhasty and excessive transfer of interests in the primary distribution of national income.

In handling the distribution of national income in recent years, we tended to concentrate our efforts on creating more national income, that is, we tried to make the "cake" as big as possible in order that the state financial authorities, enterprises and individuals could all benefit more. We may call this a standardized inherent logic.

However, it is also possible that a logic contrary to this will appear in actual economic life. Take the conditions in China for instance. A comparison between 1987 and 1978 shows that although domestic revenue after deducting domestic and foreign debt income increased at an average annual rate of 7.7 percent, real growth after allowing for price increases only stood at 0.7 percent. On the other hand, the value of gross social product, the total value of industrial and agricultural production, the GNP and national income registered annual increases of 10.8 percent, 10.6 percent, 9.4 percent and 9 percent respectively. By comparison, domestic revenue after allowing for price increases was 10.1, 9.9, 8.7 and three percentage points lower. In 1988 in particular, the rate of revenue increase even lagged behind that of price inflation.<sup>8</sup> It is obvious that there are indeed instances in actual economic life that are contrary to the standardized inherent logic: Although the "cake" has been made bigger, the share going to the state financial authorities is reduced. This gives rise to a series of recursive inertia: To overcome financial difficulties caused by chronic budget deficits, the only alternative is to overdraw from the banks. Credit inflation inevitably follows. By the end of 1987, total overdraws from the banks following successive years of deficits reached 51.4 billion yuan. This, plus the fact that bonds are purchased with bank funds, and appropriations for the replenishment of fixed circulating funds have been replaced by loans, has made it difficult for the banks to curb credit inflation.

This tells us that when we handle economic interests relations and analyze the reasons for the excessive growth in total demand, we should not confine ourselves to endeavors at making this "cake" bigger. Rather, we should study on this basis the overhasty and excessive transfer of interests in the primary distribution of national income as well as the coordination and equilibrium of the interests distribution mechanism as a whole.

3. The correct handling of fairness and efficiency in the distribution of economic interests.

Economic interests have always been the dynamic cause and source of motivation of economic activities. Our economic structural reform also started from the readjustment and stimulation of interests. Whether we are implementing the output-related system of contracted responsibilities and increasing the purchase price of agricultural products in the rural areas, or reforming the wage and bonus system in enterprises in cities, or reforming the systems of enterprise funds, after-tax profits, retention for depreciation funds and so on in basic economic units in the urban and rural areas, particularly in state-owned enterprises, the basic economic interests entities are always given real benefits to arouse their enthusiasm. After 10 years of reform, the motivation on the part of economic interests entities to pursue and realize interests has been markedly strengthened, and changes in interests have become a powerful inducement mechanism in the choice of action taken by economic interests entities. From this has emerged a new interests structure, which finds salient expression in a

changed pattern in the distribution of personal income: First, there is a marked rise in the standards of income and consumption for urban and rural inhabitants, and the scope of poverty is reduced. In 1988, the real level of consumption for inhabitants throughout the country was 639 yuan, representing an average annual growth rate of 7.6 percent over 1979 after allowing for price increases.<sup>9</sup> In 1987, the per capita net income of peasants was registered at 463 yuan, 345.5 percent that in 1979, or 280.6 percent after allowing for price changes.<sup>10</sup> Second, the income differential between urban and rural inhabitants is reduced. The per-capita annual income of the rural inhabitants increased from 134 yuan in 1978 to 463 yuan in 1987, while that of their urban counterparts increased from 316 yuan in 1978 to 916 yuan in 1987.<sup>11</sup> The difference between the two is reduced from 1:2.36 in 1978 to 1:1.97 in 1987. However, there has appeared the phenomenon of "picking up the chopsticks to eat the meat and shouting abuses the moment the chopsticks are put down" in the distribution of personal income in our country. To put it more precisely, on the one hand, the chronic maladies in the distribution of personal income have not been completely healed. For example, the Gini coefficient for the distribution of income among families of urban employees dropped from 0.185 in 1977 to 0.168 in 1984.<sup>12</sup> After the introduction of structural wages in 1985, the ratio of wages between low and high-ranking personnel dropped from 1:3 to 1:2 on the whole. In other words, within the scope of the state's direct control, new egalitarian practices have emerged when old egalitarian practices have yet to be eliminated. On the other hand, in areas beyond the state's direct control and where the system of indirect control has not yet been effectively established and in operation, income appears to be too high among a small number of people and in a small portion of economic activities. This refers to the relationship between public bus drivers and taxi drivers, office workers and vendors, those who engage in atomic bomb development and those who sell tealeaf eggs, workers engaged in the primary industry and their counterparts in the secondary industry. In addition to these, "obtaining income through one's power" is also a salient problem. The current problems in the distribution of personal income in our country are different from the typical egalitarian practices under the traditional socialist economic system, and the typical disparity in income in capitalist economies is also a far cry from the goal of our economic structural reform, that is, the achievement of common prosperity through rational means of widening the income gap.

Whether or not the distribution of income is rational has a direct bearing on the efficiency of economic activities. Theoretically speaking, the larger the share of interests, the greater will be the motivation and the higher will be the efficiency of economic operations. Conversely, the higher the efficiency, the greater will be the total interests and the larger will be the share going to the interests entities under a given distribution system. This will give rise the logic of spiral growth. However, the objective logic is not as simple as that. While there has indeed been

a marked increase in personal income for urban and rural inhabitants in recent years, the efficiency of economic operations has not seen a corresponding and satisfactory improvement. For example, it was not until 1985 when the all-factor productivity of state-owned industries finally approached or slightly surpassed the 1957 level.<sup>13</sup> The trend of low-efficiency operations as revealed by various sources has not seen any improvement. Fairness and efficiency present a big contrast here. In fact, we were confronted with the choice between fairness and efficiency on the question of distribution of income when we first launched the reform. The policy of enabling some laborers to become well-off first represented a shift of emphasis from excessive stress on equality to the principle of according priority to efficiency while paying due attention to equity, or, as noted in the report delivered at the 13th National Party Congress, "bringing about equity while improving efficiency." We would say that there is nothing wrong with this objective. However, "becoming well-off first" has three given preconditions. First, those who become well-off first must do so through labor, that is, act in accordance with the socialist principle of distribution according to work rather than benefit by abuse of power. Second, there should be equal opportunity in the course of becoming well-off. That is to say, we must act in accordance with the socialist principle of fair competition and must not secure benefits through loopholes and vacuum in the dual structure or through one's power. Third, the aim of becoming well-off is not to create polarization. In other words, we must strive for the socialist goal of ultimately moving toward common prosperity rather than create a polarized situation where there are a few millionaires while the majority of the people are living at subsistence level. In his meeting with the former Japanese Premier Nakasone in 1986, Deng Xiaoping said: "We must develop the social productive forces, develop the system of ownership by the whole people, and increase the income of the whole people. We allow some areas and some people to become well-off first in order to ultimately achieve common prosperity. Hence the need to guard against polarization. This is called socialism."<sup>14</sup> The emergence of the above-mentioned contrasts and abnormalities in the distribution of income in recent years already represented a deviation or departure from these three preconditions. The formation of interests mechanisms and the obstacles and deviations they encountered in their operation were important reasons for the big contrasts in fairness and efficiency. There is a general feeling of discontent and dissatisfaction because the rigidity of interests and the vying of interests under the dual structure have affected the readjustment of interests; interest stimulations have been strengthened while interest constraints remain weak; people are going after near-time interests and personal interests at the expense of long-term interests and public interests; and the irrational and nonstandard tendency of excessively high income among a small number of people is growing in intensity. The enthusiasm of workers is generally not as high these days as in

the 1950's and 1960's and the rallying force of revolutionary ideals is on the decline. However, the interests stimulation mechanisms which have taken their place have not produced the desired effects. While admitting that they are getting more than they did in the past, the masses are convinced through the emergence of the "rent-seeking" phenomenon and unequal distribution of a noncompetitive nature that others are getting even more. Mutual vying in the distribution of income is common and the tendency of distribution in kind is gaining strength. The deviations and bottlenecks in the present interests structure have resulted in the diminishing effect of material incentives and ultimately in the low-efficiency operations of the economic system. Some of the reasons are unavoidable in the course of the changeover of structures, or costs that must be paid in the course of reform; others are the result of the lack of coordination in reform measures and mismanagement; still others are problems left over by history and remain to be overcome. We would say that our tolerance of unfair distribution of income or ineffectiveness in maintaining checks and balances has been a major mistake of ours in reform in recent years.

It can thus be seen that "a more disturbing and common trade-off" resulting from the operation of the economic interest system is the question of fairness and efficiency.<sup>15</sup> The target model for the economic interests structure outlined above is aimed at bringing about a more rational and harmonious integration and unity between the two, that is, to properly handle fairness and efficiency by achieving greater fairness at the cost of efficiency or greater efficiency at the cost of fairness. We believe that the cause of our present predicament, that is, having to sacrifice not only fairness but also efficiency, lies not in our choice of target model for the interests structure but in the dual structure and the fact that we have never really fundamentally touched on the non-competitive and nonstandard unfairness in distribution under the politico-administrative model. For this reason, in our future economic reform and development, we must, on the premise of upholding the socialist principle of distribution according to work, prevent the polarization of rich and poor and take the road of common prosperity on the basis of ensuring the interests of the economic interest entities. In other words, we must establish interest mechanisms that will bring about equality of opportunities and not equality in terms of ultimate income. At the same time, we must gradually narrow the disparity in interests between enterprises and between regions resulting from traditional structures and inequality in the internal and external environment of enterprises and regions in the process of the changeover of structural models. We must also give consideration to both long-term and public interests and ultimately establish a socialist economic interests structure that is capable of self-constraint and self-coordination, has clear lines of demarcation, and will bring about fairness as well as high efficiency.

#### **IV. On the Relationship between Reform and Development and Its Relationship To the Corresponding Environment**

1. The changeover of economic structural models and the question of coordination in the changeover of economic development models.

Economic reform and economic development are two aspects accompanying the same process of socioeconomic movement in China in the past decade. Practice over these 10 years has borne witness to the fact that the changeover of economic structural models must be in keeping with the development model. An economic development model which has speedy growth as its primary objective (speed type or quantitative type) and development by extensive means as its major channel (extensive type) will inevitably require a highly centralized economic structural model with direct regulation and control by administrative orders, as practiced in China, as well as a similar political structural model. On the other hand, an economic development model which has the improvement of efficiency as its primary objective (performance type or qualitative type) and development by intensive means as its major channel (intensive type) will require an economic structural model that allows more decentralized decisionmaking and greater use of indirect regulation and control by economic means, as well as a corresponding political structural model. Following the changeover of economic structural models, the economic development models must also be changed. Hence, the changeover of economic development models and the changeover of economic structural models are complementary. However, just like the changeover of structural models, the changeover of economic development models may not be realized within a short time or may have to experience painful throes due to the inertia of the traditional models, the indolence of traditional concepts, the rigidity of traditional interests and the imprecision of the projection for the changeover. Although we have made notable achievements in the changeover of economic development models in recent years, the problems and their seriousness are no secret. This finds salient expression in the fact that the traditional development strategy of going after quantitative increase or the speed of growth has remained unchanged. We have to admit that this has been a major flaw in our reform and development in the past decade.

By this stage, although consensus has been reached on the changeover of economic development models, it is very difficult to effect the change in actual practice. The representative view is that high-speed development alone can ensure revenue, and that low-speed development will create livelihood and financial difficulties. This reflects low efficiency. On the other hand, it also demonstrates that the high-input low-output development strategy of sustaining economic growth must be changed. This is necessary because overheated economic growth, excessive demand for investment and the large gap between supply and demand are the major causes of

the decline in macroeconomic results. Unless this practice of going after quantity and speed is fundamentally put to an end, our hope of switching to the new orbit of a performance-type development model will fall through. Further, once we fall into the absurd cycle of high input, low output, still higher input and still lower output, our financial difficulties will multiply, thereby affecting economic life as a whole. Some comrades hold the above view because they see economic growth rate and supply growth rate are equivalent in value. To them, suppression of the speed of growth will only widen the gap between supply and demand and turn the gap between supply and demand under a high growth rate into a gap between supply and demand under a low growth rate. They say this will cause us our opportunity to catch up. Our view is that China has achieved its present economic growth rate mainly through development by intensive means. In general, an increase of 100 million yuan in industrial output value requires an increase of 150 million yuan in investment, meaning that growth in the demand for investment outstrips growth in supply. In going after a growth rate that is beyond our national capabilities, we have widened the gap between supply and demand. Hence, we should base the speed of economic development on the premise of achieving better economic results, and go after increases with better economic results as our goal, not the other way round. Otherwise, we will only cause the environment to deteriorate and create still greater obstacles to future reforms. Thus, we think that in the process of the change from the dual structure to the target model, we should strive to bring about a synchronous change in the economic development strategy in the same direction. In other words, if a further change in development strategy can effectively put an end to the tendency of one-sidedly going after speed and quantity, it can definitely create a favorable objective environment for further economic structural reforms. Also, if the deepening of economic structural reform along vertical lines can effectively curb swelling investment and the loss of control over consumption, it can definitely create conditions for the further changing over of development models.

2. In the course of development and reform, it is necessary to have a relatively relaxed economic environment.

One of the great mistakes in our economic work in recent years was that we tried to stimulate economic growth by inflationary means. However, it has been proven by facts that inflation poses a serious obstacle to economic restructuring. A few years ago, some comrades in economic circles had already noted that a relatively relaxed economic environment was needed to further our reforms. We think that reforms of the ownership system, pricing, enterprises and other aspects are problems that must be resolved in the economic structural reform as a whole. An important criterion for pushing forward reform is to put an end to the tendency of being over-anxious for quick success and going beyond our national capabilities in our scale of construction, reduce the excessive total demand, and create a relatively relaxed

economic environment that is conducive to reform. In this economic environment, the macroeconomy should be fairly well-balanced, the market environment should be relaxed, prices should be relatively stable, and reserves in the form of state revenue, foreign exchange and materials should be relatively abundant. If the economic situation is strained and there are imbalances, it will be impossible for market mechanisms to function. Moreover, we will often be compelled to again resort to and intensify administrative means so as to put the distribution of resources under direct state control. This will hinder reform and may even result in a return to the old structure. Of course, we do not deny that we must rely on readjustment and reform to create a relatively relaxed economic environment.

Swelling investment has been a major cause of inflation since 1984. Huge investment in fixed assets is sustained by a small budgetary fund. Fund-raising channels formed by separate financial jurisdictions and the state ownership of the banking system have ensured that the mounting demands for investment are satisfied and met through credit inflation. On the other hand, the soft budgetary constraints of the state economy have given rise to swelling consumption demand within the state sector. Low economic efficiency tends to widen the gap between supply and demand, and the widening of this gap in turn stimulates the innate expansion impulse of the traditional structure. At present, the curbing of inflation has become an important consideration in our efforts to free ourselves from economic difficulties. In this connection, our views are: 1) The freezing of prices by administrative means is not a long-term and effective means of overcoming inflation. We must recognize that although administrative measures taken to freeze prices, close the markets and place commodities under special government control can stabilize prices and set people's heart at rest, these are but temporary measures. As proven by the experience of many countries, the freezing of prices by administrative means can remain an effective means for no more than 6 months, after which time the drawbacks of arbitrary price freeze will follow. Distorted prices will cause the economic structure to deteriorate, and the central and local authorities will be burdened with everincreasing financial subsidies. The contradictions between economic improvement and rectification on the one hand and reform on the other mentioned in recent discussions are reflections of this phenomenon. 2) Monetary regulation and control, a common means of macroeconomic regulation and control in the West, has produced very negative effects in China: Since the control of money supply lacks an effective transmission mechanism through which to affect demand, total demand cannot be effectively reduced. Difficulties in bank payments brought on by retrenchment policies will be shifted onto the circulation of funds outside the structure. Credit recalled by banks under the policy of monetary control is not credit for fixed assets but credit for circulating funds which are essential to enterprises in carrying out normal production and operation. The over-issuance of money and the acute shortage of money

supply exist side by side. Hence, we believe that in order to solve the problem of inflation, we must exercise control over money supply and make sure that its rate of growth more or less corresponds to the economic growth rate. The excess supply of money in circulation is related to the big gap between total demand and total supply. When total demand exceeds total supply, money in circulation will grow excessively; when total demand lags behind total supply, there will be surplus money withdrawn from circulation. Thus, if we simply control the issuance of currency and do nothing about reducing the demands for investment and consumption, we will only block the circulating funds of enterprises and cause production to slide. This, in turn, will reduce the supply of essential goods and aggravate the imbalance between total demand and supply. 3) We can no longer rely on inflationary means as the "stimulant" for boosting economic growth. High cost and structural readjustment are factors of inflation, but the most fundamental factor lies in the fact that total demand outstrips total supply. The concept of stimulating economic growth by inflationary means and the idea that we can sustain a high rate of economic growth by means of a high rate of inflation are the theoretical basis for the spiraling inflation in China. However, as we all know, this kind of theory which originates from the Keynesian method of stimulating economic growth by means of deficits is intended for a capitalist economy with insufficient demand, rather than for a traditional socialist economy with excessive demand (that is, the so-called "scarcity economy"). Moreover, even Keynesian economists emphasize the theory of balanced budgets over a given period, to say nothing of the fact that thus far not a single country has been able to claim success in sustaining economic growth by means of a high rate of inflation. Thus, we cannot try to explain our inflation away by claiming that there is high inflation in some countries, and use this argument to justify the implementation of an inflationary policy. We must fundamentally do away with the theory that inflation is useful and totally harmless, eliminate the influence of this theory in the economic decisionmaking structure, and try as far as possible to take feasible measures against inflation in order to create a relatively relaxed economic environment for reform and development.

3. The theory of stages of development of socialist society is our point of departure in examining the question of reform and development in China.

Recognizing the complexity of the historical process of socialism and the fact that socialism develops by stages is the theoretical premise for discussions on the reform and development of the socialist economy as well as the primary task in building socialism with Chinese characteristics. In recent years, the theoretical circles have made positive efforts to explore this question and have come to the conclusion that China is still in a primary stage of socialism, with its productive forces remaining at a very low level and the commodity economy only beginning to develop. A scientific exposition of this of

this theory was given in the report delivered at the 13th National Party Congress. In our opinion, the theory that China is now in the primary stage of socialism is based on an objective analysis of the conditions in China as well as on a reunderstanding of various socialist models in the course of practice. Thus, we should try to understand this theory in a wider sense instead of merely from the philosophical concept of three-stage development or from the angle of practicality. 1) Over the years, we have always followed the Stalinist approach in our perception of the socialist model. The fact that our party has unequivocally put forward the theory of the primary stage of socialism indicates that it has acquired a deeper understanding of our national conditions and the law governing the development of socialism. On the basis of facts, it has addressed the issue of the historical stage that an economically backward socialist country like ours must go through. In this sense, if we recognize the semicolonial and semifeudal nature of old China as the point of departure in the search for the law governing the Chinese revolution, then recognition of the fact that China is now in the primary stage of socialism is the point of departure in the search for the law governing the building of socialism with Chinese characteristics. 2) Being able to correctly judge which stage of social development our country is in at a particular period is the crucial point of departure and rudimentary basis for the formulation of correct strategies and tactics by the ruling party. Thus, the theory of the primary stage of socialism is not only the most fundamental and important theoretical and practical basis for building socialism with Chinese characteristics, it is also our objective basis for the formulation of various lines, policies and principles. It provides us with a fairly flexible scope in which to objectively understand socialism and capitalism and to study and put into practice models for the restructuring and development of the socialist economy. 3) For a considerably long period of time, we had one-sidedly interpreted the principle of the interrelations between the productive forces and production relations in the Marxist materialist concept of history. This led us to think that by constantly changing the production relations and upgrading the ownership system we could bring about a significant development of the productive forces. Although the dispute between Lenin and Plekhanov over the two prerequisites for the establishment of the socialist system (the level of development of the productive forces and the level of consciousness of the laboring people within the country) ended with the victory of the Lenin-led October Revolution, Lenin still recognized the importance of developing the productive forces. Immediately after the October Revolution, he singled out the development of the productive forces as a task of primary importance, and regarded the growth in labor productivity as "something most important and crucial to the victory of the new social system."<sup>16</sup> Our reflections on socialism and its stages of development have enabled us to recognize anew the fact that our central task in the primary stage of socialism is to develop the productive forces and to take this as our

point of departure in considering all issues and as the basic yardstick for examining all work.

The theory of stages of development of socialist society involves both the idea of economic development stages and the idea of economic structural reform stages. This indicates that reform and development both involve a process of gradual and orderly progress. However, a review of reform and development during the past decade shows that we have not made any fundamental changes in the model which goes after high speed in its economic development strategy and tends to be overanxious for quick results at the expense of economic performance, and that this guiding ideology is exerting its influence even in the course of the economic structural reform. A case in point is that new reform measures were introduced before the old ones had a chance to prove their worth. Some of these measures even posed new obstacles to further reforms. Reform experienced great ups and downs due to the mentality of hoping to achieve the target in one attempt, the introduction of new measures year after year and month after month, and the fact that whenever a policy was pressed down from above, the lower authorities immediately instituted countermeasures. The subjective factors that have given rise to this phenomenon seem to be related to the philosophical viewpoint colored by "voluntarism" and, on the ideological level, the "campaign-style" development idea which have existed for a long time.

4. The question of coordination between economic structural reform and the improvement of economic environment.

Seen from the basic principle of the Marxist materialist conception of history, economic reforms in socialist countries are all linked with political reforms in a myriad of ways. Hence, in the study of economic structural reforms, we must not overlook or neglect the study of the corresponding political structure. At the very least, we should regard the study of political structure as the logical premise for the study of economic structural reforms rather than one-sidedly stressing that economic reform is the responsibility of economists while political reform is the special concern of politicians. Otherwise, no reform program, however well-planned, can be smoothly implemented or can achieve the anticipated goals. If we do not put reforms of the pricing system, the ownership system, enterprises and so on in their proper perspectives in the social system as a whole, and do not carry out related reforms on the political-administrative structure of the traditional socialist model, and instead only consider economic reforms from the perspective of the economic structure, the economic structural reform will either die a premature death due to major obstacles posed by the original political structure, or deviate significantly from the anticipated goals due to various changes. As abundantly proven by theory and practice at home and abroad, without the guarantee of political democratization, economic democratization cannot be truly realized. Compared with the progress achieved in economic reforms over the past years, reforms in the

direction of political democratization are obviously lagging behind. This in turn is not conducive to the solution of problems that have surfaced in the course of economic reforms. Hence, how to combine economic reforms with political reforms, promote political reforms through economic reforms, and rely on political reforms to guarantee and speed up economic reforms have become major problems urgently awaiting our study and solution.

Looking back, China's socialism has gone through a rough and bumpy road in economic reform and development in the past 10 years. In the same way, explorations on theory of China's economic structural reform have also seen much stumbling blocks and disputes. Hence, our "reflections" here cannot claim to be exhaustive. Comrade Deng Xiaoping recently said: "This incident has impelled us to think over the future as well as the past sober-mindedly. It will enable us to carry forward our cause more steadily, better and even faster."<sup>17</sup> His words precisely reflect the wishes and mentality of our theoretical workers.

#### Footnotes

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4. Liu Guoguang: "A 10-Year Review of China's Economic Reform Theory," carried in *A Decade of Economic Structural Reform in China*, compiled by the State Commission for Economic Restructuring, jointly published by the Economic Management Publishing House and the Reform Publishing House, 1988, p 138.

5. "Comrade Deng Xiaoping's Speech at His Meeting With Major Commanders of the Martial Law Enforcement Troops in the Capital," RENMIN RIBAO, 28 June 1989.

6. See "Near-Term Measures for Freeing Reform From Its Current Difficulties" by the Economic Situation Analysis Group under the Economics Section of the Chinese Academy of Social Sciences, JINGJI YANJIU, No 7, 1989.

7. See *No Other Choice—The Experience, Lessons and Future of Socialism*, edited by Yuri Afanasev, translated by Wang Fushi [3769 1788 1102], Zhao Yuling [6392 3768 7881] et al, Liaoning University Press, March 1989.

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13. See Chen Kuan [7115 1401] and Xie Li [6200 3810] et al: "A Study of the Trends of Changes in the All-Factor Productivity of State-Owned Industries," ZHONGGUO SHEHUI KEXUE, No 4, 1988.

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15. Arthur Okun: *Equality and Efficiency—The Great Trade-Off*, translated by Wang Benzhou [3769 1149 3166], Huaxia Publishing House, 1987, p 2.

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17. "Comrade Deng Xiaoping's Speech at His Meeting With Major Commanders of Martial Law Enforcement Troops in the Capital," RENMIN RIBAO, 28 June 1989.

### Industrial Policy Creating New Macroeconomic Structure

HK0712072489 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 9, 20 Sep pp 13-20, 36

[Article by Yang Yunlong (2799 0061 7893), Department of Social Sciences of Beijing Forestry University: "Establish New Macroeconomic Patterns Through the Implementation of Industrial Policy"—dated May 1989]

#### [Text] I. Introduction: Argument and Summary

The basic argument of this article is: The historical effect of China's industrial policy is the gradual establishment of new patterns of macroeconomic growth, movement, regulation, and control. The so-called new pattern of macroeconomic growth refers to the process of establishing a new overall structure for the allocation of economic resources in the whole society and making the necessary changes on the basis of effecting a fundamental change in the targets of economic development. The

so-called new pattern of macroeconomic movement refers to the alternation and change of the new internal contradictions, as well as the different form of the contradictory movements which they contain, in the process of determining and realizing the aggregate totals of the national economy. The so-called new pattern of macroeconomic regulation and control refers to the establishment of new targets and means of macroeconomic regulation and control, new government functions and new institutional standards in the process whereby the government grasps economic growth and movement as a whole.

The purpose of this article is to prove a new theory regarding the process of China's economic development and structural reforms (particularly macroeconomic structural reform). In order to establish this theory on the logical level, it is necessary to answer the questions of "why" and "how," that is, why do we have to establish new macroeconomic patterns through the implementation of industrial policy and how should we go about it? In this article, I will try to illustrate my point on the basis of the following propositions: 1) In a developing socialist country like ours, economic growth and development constitute an overriding historical proposition. 2) Economic structural reform itself constitutes a link or aspect of China's economic growth and development. 3) Economic structural reform is a process of gradually moving toward the target value, and the contents and effects of industrial policy itself also involve a process of gradually deepening changes.

Lastly, as an introduction, it is necessary to clarify the contents of industrial policy under discussion in this article: China's industrial policy is a general term referring to policies adopted by the government to intervene in and guide the development and changes of the industrial structure in a particular direction. The main point of focus is promote the development of a highly-developed industrial structure and improve the performance of industrial organization to scale.<sup>1</sup> Thus, the term industrial policy mainly includes target policies for the rational evolution of the industrial structure and the industrial organization, as well as a series of supporting parameter policies, such as financial policies, monetary policies, foreign trade policies, pricing policies and technological policies, together with the corresponding administrative and legal means.

#### II. Establish a New Pattern of Macroeconomic Growth Through the Implementation of Industrial Policy

Here, the questions we must first discuss are: Are studies on the macroeconomy and discussions on economic development totally unrelated? What is the relationship between studying questions of economic development and discussing questions of policy?

It must be clearly understood that since studies on questions of economic development in developing countries, particularly questions of structural changes in the course of economic development, fall within the scope of

macroeconomic studies to begin with, we need have no fear that the incorporation of questions of economic development, including questions of structural changes, into the realm of macroeconomic studies will "rob the macroeconomy of its macroeconomic nature."<sup>2</sup> One of the most popular works on macroeconomic analysis to date notes: "Macroeconomics studies the functions of the national economy as a whole, including how the total output volumes of commodities and services and the total volume of resources used in the national economy are determined, as well as what causes the fluctuations in these aggregate totals." What it tries to show are "major" issues of economic life—full-employment or unemployment, production in full capacity or production under capacity, a satisfactory rate of growth or an unsatisfactory rate of growth, inflation or stable commodity prices."<sup>3</sup> Hence, macroeconomic studies definitely include the theory of economic growth. "The theory of economic growth which seeks to show the process of growth in a developed economy generally applies to all developed economies. However, this same theory does not apply to developing economies." "Hence, in the postwar period, the economic-growth theory developed along two lines: One branch, called development economics, tries to explain the process of economic growth into the developed stage, while the other branch tries to show the process of growth in the developed economies."<sup>4</sup>

Contemporary studies on questions of economic development in developed countries are destined to be closely linked with studies on questions of state policies. The grasping and making of decisions on major issues, including the choice of development strategies, the planning of industrial structure and economic types (such as import-oriented or export-oriented, natural economy or commodity economy), as well as questions of the relationship between equality and efficiency, the relationship between savings and consumption, employment and population growth in the course of industrialization, coordination between urban and rural areas and coordination between regions, are all directly related with studies on questions of state policies. The renowned development economist Hirschman even argues that although the presence or otherwise of capital, technology, management personnel, as well as entrepreneurship, cultural and educational level, public order, the legal system, the most elementary standard of government administration, and various beliefs and value structures, are of great importance to economic development in developing countries, what is most important is whether or not these countries have "a profound understanding" of the road they have to take. He regards the above-mentioned conditions more as products of economic development. He does not think that if certain resources are present or if certain obstacles are eliminated, "the force of economic development will naturally occur as do race horses after take-off." Rather, he emphasizes the ability of society to understand the

process of economic development and make the necessary decisions, and stresses that "we must try to determine under what circumstances and through what inducement mechanism can decisions be reached incessantly."<sup>5</sup>

It is precisely for this reason that in this article I will attempt to combine studies on China's industrial policy with the understanding of and policy decisions regarding, the process of economic development as a whole. The fundamental reason why I favor the approach of establishing a new pattern of macroeconomic growth in China through the implementation of industrial policy is based on the following understanding:

First, in order to truly bring our economy into the stage of modern economic development, we must abandon the development model which has the rate of growth in total output value as its strategic objective, and enter the orbit of growth with structural growth in the process of economic development as the objective. Repeated expansion on the basis of an unchanged economic structure, however high the rate of growth may be, is no more than the simple reproduction and amplification of the original pattern of resources allocation and definitely will not usher in the process of modern economic growth. Of course, changes in the economic structural level may find expression in many aspects, but the most direct, comprehensive and important of all are changes in the industrial structure, in other words, the different trends, characteristics and role of the representative industrial sectors in the economic structure as the predominant sector alternates and changes. This kind of alternation and changes is based on gigantic changes in the productive forces, including science and technology, and is directly the result of these changes. These structural changes in turn breed and promote new scientific and technological innovations and the development of the productive forces. Hence, in different stages of economic development, we can see the movement of different industrial sectors toward the position of predominance while other sectors move away from this position. The predominance of different industries also represents different stages of development. Industrial structures with different predominant industries perform differently, that is, have different structural performance.<sup>6</sup> According to Walt W. Rostow, a noted economist, the emergence of a leading industry or a group of leading industries gives economic growth as a whole a new production coefficient. Hence, "modern economic growth is essentially a process of the growth of sectors." In this sense, I agree with him that economic development is a process of the alternation of stages with different industries playing the dominant role and that such alternation is determined by the continuous innovation and proliferation of technology.<sup>7</sup>

Second, considering the historical background of China's economic development model and the double switch of its economic structural model, as well as the present state of development in China's market mechanism, I think

that it is inappropriate to totally rely on the neoclassical theory of economic development to study and try to understand the course of economic development in China. A salient feature of the neoclassical theory of economic development is that they "put great stress on the mechanism of regulation through pricing, the diminishing marginal returns on production factors and the external character of attempts to increase productivity through technical renovation." They stress the freedom of choice for individuals seeking maximum efficiency under free competition and presume the possibility of mutual replacement between economic activities, thereby concluding that the price mechanism will lead the deployment of resources toward self equilibrium. Since these theories presume that economic activities are mutually replaceable, their delineation of economic sectors is "by and large not based on 'natural differences,' and a theory which explains the economic deeds of a particular sector is also applicable to any other sector." "Since the economy is regarded as the result of activities carried out by a large group of people with identical economic motivations, there is no fundamental difference between the neoclassical theory of economic development and its theory of economic growth."<sup>8</sup> This theory of economic growth is precisely what it relies on to explain the question of growth in the developed economies. In China, there exists fundamental differences of a nonhomogeneous nature between the natural economy and the commodity economy, between traditional industries and modern industries, and so on; the development of the market mechanism, which is still at its embryonic and infant stage, has feebleness and twisted form as its basic characteristics. Thus, it is unrealistic to consider economic growth without noting the differences between sectors or to rely on market mechanism without noting its basic properties to guide the balanced deployment of resources in the whole society in accordance with the principle of diminishing marginal returns on production factors. The actual situation demands that we must grasp the process of economic growth in our country from the angle of structural changes and effect a fundamental change in the development model. The actual situation also demands that we must not only try to make deployments of resources through the development of market mechanism but must proceed from the angle of the overall policy and rely on industrial policy to guide and direct the overall pattern of resources deployment. Rostow also notes that "in fact, the criterion for measuring the sustained economic growth of a society is whether this society can go full steam ahead in grasping and fully utilizing the three potentials emanated by the leading sector." "Like logic, sustained growth does not have a particular self-motivating and relaxed internal mechanism."<sup>9</sup>

The above analysis can more or less sum up the views of this article on "why" from the angle of the relationship between industrial policy and economic development. As to discussions on "how," I have, in the article "On the Structural Development Model of China's Economy," expounded on the construction of structural models and

the design of the selection function of leading industries.<sup>10</sup> As the continuation of the same analysis, it is necessary to concentrate my discussion here on the following four points:

First, on the determination of the stages of economic development in China, it has always been my view that our country is at present merely at the primary stage of accelerated industrialization, which is more or less at the same level of industrialization as the major developed industrial countries in the late 19th century and early 20th century.<sup>11</sup> I do not subscribe to the view that China's national economy has already entered a new stage above the consumption of necessities.<sup>12</sup> From the angle of the structure of consumer demand, consumption of commodities like food and clothing still accounts for as much as 70 percent of the total living expenses of our inhabitants.<sup>13</sup> Necessities for satisfying the basic needs of the population still constitute the bulk of consumption. From the perspective of the process of economic development in various countries, it is perhaps just as inappropriate as far as understanding and deciding the direction of economic development is concerned to regard a national economy with a per capita GNP at just over \$300 as having entered a new stage above the consumption of necessities. Determination of the stage of economic development is no doubt the starting point in handling the question of development through industrial policy.

Second, on the choice of structural changes in the process of economic development, I think that a large proportion of resources accumulated (funds in particular in China) should be expended on the development of secondary industry. Without industrialization, post-industrialization is out of the question and the so-called structural option of catching up may turn out to be mere fantasy. From the development experience of specific countries, the starting point of South Korea's industrial policy is: "If we issue credit in the amount of 10 billion, 80-90 percent will go to the manufacturing, transport and telecommunications industries; perhaps not a single cent will go to the wholesale and retail trades, catering business or restaurants because from the angle of economic development, the manufacturing industry is the key industry that will bring about the prosperity of related industries. The situation in Latin American countries provide a counter-proof. In these countries, there is zero economic growth despite the fact that money supply has been growing at an annual rate of 500 percent. The reason for this is that they invested their credit in the nonmanufacturing industries. For instance, some countries invested 80 percent of their credit in the construction of housing units or hotels."<sup>14</sup> Looking from the trends of structural change found throughout the world, H. Chenery used factors of the Kuznets prototype model which described the completion of structural transformation by some developing countries with representative experience since the war, and the conclusions obtained through the Jie-lie-ang-jie-fu [6043 0441 2491 4634 1133] model to explain that "29 percent of the total

GNP was transferred from primary product sectors to manufacturing industry sectors (21 percent) and social and public undertakings (five percent)," while the proportion constituted by the service industries changed very little.<sup>15</sup>

Thus, in the light of the current situation in China, the primary concern of industry policy in guiding the overall pattern of resources deployment is to speed up the development of secondary industry and social and public undertakings (including education, public health, and posts and telecommunications), while tough policies must be adopted to restrict and penalize those non-essential consumption projects of tertiary industry, such as the construction of golf courses, luxury hotels, office buildings, large halls and guest houses, as well as the establishment of various types of companies for purposes of "official profiteering." This is the basic strategy that must run through our industrial policy at least up to the end of the 20th century. Unless this strategy is adhered to, our industrial policy will meet with fundamental defeat.

Third, within secondary industry, it is necessary to direct social and economic resources chiefly into capital goods production sectors, particularly social advanced capital industries such as energy, raw materials, communications, and machinery and equipment manufacturing industries. The experience of economic development in South Korea was: In order to keep industry and the national economy as a whole from grinding to a halt, basic raw material industries, such as the power and iron and steel industries, have to be developed with a time and quantitative lead over other industries. "When GNP is growing at 10 percent, electricity and other industries must grow by at least 18 percent."<sup>16</sup> In recent years, China's industrial structure changed in the opposite direction. Rather than being developed with a time lead, social advanced capital industries lagged behind the development of the processing industries, particularly the consumer goods processing industries. Structural contradictions of this kind further deteriorated in 1988: While GNP was 11.2 up on 1987, total energy production (converted to standard fuel) only went up by 4.2 percent, and iron and steel production only by 5.2 percent. Total freight turnover completed by various forms of transport (including railroad, highway, water and air transport and oil and gas pipes) was up 5.1 percent on the preceding year. The production of domestic refrigerators, color TV sets, tractors and motor vehicles registered the highest growth rates in the industrial structure as a whole, having attained increases of 84.4 percent, 52.8 percent, 40.4 percent and 37.1 percent respectively.<sup>17</sup> Hence, a simple contrast is that while in South Korea the lead growth coefficient of advanced capital industries relative to GNP is 0.8, that of China's is somewhere between -0.715 and -0.530. Of course this mere figure may not fully reflect the precise lead advanced capital industries has over GNP in South Korea, but then the "Chinese characteristics" of

making advanced capital industries seriously lag behind economic growth as a whole (with a negative lead coefficient) simply goes against the world trend of structural change in the industrialization process.

Here, one point needs clarification. Can a developing country adopt the strategy of using the development of consumer goods industries to guide the structural transformation of the whole economy and take the new road of industrialized economic growth? The answer is obviously no. The process of industrialization in countries throughout the world shows that developing countries must first concentrate their scarce capital, technology and manpower on the development of capital goods industries (or means of production industries) that will have the most crucial impact on their economic development before they can most effectively transform their stagnant and backward traditional natural economies or agricultural economies into new-style industrial economies with great vitality. And only in this way will they be able to find the correct way to effectively free themselves from the vicious cycle of low investment—low economic growth—low income—low investment. The logical limitations of historical development are: In order to join the ranks of developed countries in terms of economic development, a developing country must attain an industrial growth rate over and above than that of its traditional natural economy and that of the economies of developed countries (of course this does not refer to the kind of mere quantitative growth which is attained without the corresponding structural changes and which is totally divorced from national capabilities). This will naturally require guarantee in the form of greater investment (whether such investment comes from accumulated domestic funds or the injection of foreign capital). The maintenance of such a high rate of investment will inevitably require that growth in investment-type industrial products, that is, the output of means of production industries, be higher than growth in the output of consumer goods industries. As far as the developing countries are concerned, investment-type industries can only be capital goods industries such as energy, raw materials, communications and transport, and machine and equipment manufacturing industries. This shows that since we are left with rather limited choice by history, we must clearly and objectively differentiate between criticism of the traditional structure and the traditional mode of industrialization on the one hand and our actual historical choice on the other.

Fourth, in the wave of new technological revolution and industrial structural transformation that sweeps the world, we can only base ourselves on intermediate technology and take modern industry (or intermediate-to-late stage industry) as the realistic target of structural transformation. At present, due to the rise of the new technological revolution and industrial revolution, the developed countries are vying to develop technology- (or knowhow-) intensive new industries. Compared with these "sunrise industries," textile, iron and steel, machine-building, shipbuilding and coal industries have

become "sunset industries." Countries like the United States, the Federal Republic of Germany, and Japan are adopting policies aimed at gradually restricting, weakening or partially transferring these "sunset industries" to the developing countries, particularly countries with moderate levels of development. This no doubt affords the developing countries with another kind of opportunity. We must grasp this opportunity and greet the challenge.<sup>18</sup> "Sunset industries" for the developed economies are precisely the backbone industries that developing countries including China can and badly need to develop. We must clearly understand this before formulating China's industrial policy. The "catching up" idea of competing with the developed countries in the development of high-technology industries, encouraging though it may be, is divorced from the actual economic strength, scientific and technological level and cultural and educational standards of our country, as well as the superiority which our country has over the other developing countries in that we have a massive modern industrial structure that is complete in range and solid in foundation. With regard to the new technological revolution and industrial revolution, we can only adopt a policy of limited action and selective development based on the transformation of modern industry.

### III. Establish a New Pattern of Macroeconomic Movement Through Industry Policy

First we must discuss the relationship between industrial policy and the grasping of macroeconomic movement, for this constitutes the basic argument of whether or not problems of economic movement can be solved through industrial policy.

The norm of socialist economic movement is that total demand always exceeds total supply. This feature may also be described in terms of Konai's concept of "scarcity economy." Short-term fluctuations in socialist economic movement may be summed up into two categories. The first category refers to above-norm growth in total demand. It is this kind of short-term fluctuation that is troubling our economy at present. The second category involves short-term imbalance with the coexistence of structural overstocking and shortages as its major symptom. The two economic structural readjustments in 1958 and 1978 are cases in point. This method of classification only looks at the major manifestations of these fluctuations, and does not mean that there is no serious structural imbalance in short-term fluctuations resulting from the swelling of total demand, still less does it mean that in short-term fluctuations resulting from the intensification of structural contradictions, serious contradictions in total volumes with total demand greatly exceeding total supply do not exist. However, it is true that the other type of short-term fluctuation, in which total supply exceeds total demand and commodities are generally in excessive demand, has never occurred in our macroeconomic movement. This requires that we combine industrial policy analysis and analysis of

overall macroeconomic volumes to understand and deal with short-term fluctuations in our country's economic movement.

With regard to the direct cause of above-norm growth in total demand, we must not only take note of the drastic swelling of consumer and investment demands but must also take note of the shortage in the supply of essential products. The mounting demands for consumption may be overcome by controlling demand with retrenchment as the basing point, while the shortage of essential products can only be resolved by reforming the micro-economic base, increasing the supply elasticity and transforming and readjusting the industrial structure. If we see efforts to increase the supply of essential products as long-term measures aimed at changing the norm of economic movement and therefore think that we can only tackle short-term fluctuations caused by the swelling of consumer demand by macroeconomic means of curtailing demand, we not only will not be able to solve the problem but will inevitably produce further rounds of escalated growth in consumer demand. Take the swelling of total demand for instance. Despite the cutting back of demand which has been in force since last September-October, the momentum of growth has not shown any obvious sign of slowing down. On the other hand, "the supply of essential products has been badly affected. Sample survey shows that over 75 percent of the projects abandoned in the past six months were key projects of the state. Despite the fact that economic growth rate for the month of January was brought down to 8.2 percent, growth attained by state enterprises with high returns was only registered at 3.7 percent, whereas township and small town enterprises with low returns still maintained a growth rate of 25 percent."<sup>19</sup> Thus, while the improvement of supply elasticity through reform of the enterprise system may be a long-term measure, efforts to increase the supply of essential products, particularly the supply of goods in great demand, and deal with overall contradictions in total volumes through alleviating structural contradictions constitute a pressing immediate task (of course there will be a time lag between the effect and the cutting back of demand). Only by carrying out differentiated directional cutting back of demand in different industries on the basis of industrial policy can we successfully overcome short-term imbalance caused by the swelling of total demand.<sup>20</sup>

With regard to short-term imbalance with structural contradictions as its major symptom, we must try to overcome or correct the problem through industrial policy. By this we not only refer to quantitative changes in terms of the proportions between different industries, that we should cut down the overdeveloped industries and expand the underdeveloped ones, but also refer to qualitative changes, that we should effect a change in the structural level through industrial policy and change the norm of economic development. Take the proportion between energy, raw materials and other processed goods for instance. In a situation of acute imbalance with the

supply of energy and raw materials falling far short of demand, if we do not consider qualitative changes in the industrial structure, the only option we have will be to proceed from a very simple concept of alternating quantitative growth (that is, add more water if there is too much flour and add more flour if there is too much water) and try to strike an equilibrium between the structural proportion of different sectors on the basis of a low level of expansion. If we consider and handle problems on the basis of this simple mode of thinking, we will not be able to seize the opportunity afforded by the intensification of structural imbalance to bring about an increase in the supply of energy and raw materials and promote a structural change that will raise the utilization rate of energy and raw materials (for instance, create and develop new industries that involve a higher degree of processing of energy and raw materials and a lower consumption of energy and materials). In fact, qualitative changes in economic development, as a concrete objective process, are closely bound up with fluctuations in economic movement. Hence, short-term fluctuations in economic movement and their correction cannot be considered in isolation from qualitative changes in economic development. This is particularly true with the Chinese economy, which is moving from reliance on growth in energy and raw materials to reliance on technological progress. Thus, the establishment of a benign cycle of macroeconomic movement should also be taken as a fundamental task in the formulation of China's industrial policy.

In the light of the current problems, namely, the widening gap between total demand and total supply<sup>21</sup> spiralling inflation<sup>22</sup> and worsening imbalance in the industrial structure, we have no alternative but to place the major point of focus in our industrial policy on the overcoming of short-term fluctuations in macroeconomic movement in order to readjust the demand structure, increase the supply of goods in great demand and improve the development and retrenchment order in the industrial structure as a whole while cutting back total demand. Proceeding from the alleviation of structural contradictions, we should aim at overcoming inflation and stabilizing macroeconomic fluctuations while making every effort to prevent serious cuts in the supply of essential products, and forestall worsening shortage in key industries and overall "stagflation" which uniform measures of overall retrenchment will bring about. In this way, we will be able to bring about harmony between the short-term improvement of the macroeconomic situation and the long-term development of the economy. In order that our industrial policy will produce such an effect, the important thing is for us to have an accurate understanding of the structural contradictions, trends of evolution and their background.

Under the given condition where total demand is greater than total supply, the structural contradictions directly presented before us are: (1) The imbalance between agricultural and non-agricultural production. This kind of imbalance is specifically manifested as follows: In

terms of industrial structure, the production of farm and sideline products is insufficient and unstable and cannot meet the needs of non-agricultural production. In terms of employment structure, a large surplus labor has been accumulated in agriculture and this force is awaiting its transfer to non-agricultural production. In terms of investment structure, agricultural investment has seen a continuous decline in recent years and investment truly expended by the state, the collectives and the farming households on agriculture (particularly investment in farmland capital construction) is seriously falling short of the needs of agricultural development. (2) The imbalance between the basic industries and the processing industries. This kind of imbalance has the following specific characteristics: In terms of industrial structure, since the basic industries cannot meet the needs of the processing industries, the processing industries are left with a large surplus capacity. In terms of the input structure, the situation is that extra-budgetary investment by localities, enterprises and individuals mainly goes to the processing industries, and only budgetary funds which constitute about one-fifth of total investment are invested in the basic industries. (3) The structural rupture between the newly developed industries and the traditional industries. This kind of rupture includes the breaking of links between industries, the breaking of links between technological innovation and proliferation, and the development of the relationship between imports and exports in the direction of comparative profits and losses. The trend of changes and background of current structural contradictions are as follows: First, the demand structure will further intensify the above-mentioned contradictions in the industrial structure. This is so because in the demand structure there has already developed a concentrated competitive demand for newly developed home electrical appliances and farm and sideline products. According to the State Statistical Bureau, there was above-normal growth in the retail sales of consumer goods in 1988: TV sets, recorders, electrical fans, washing fans, refrigerators and other durable consumer goods, up 20-50 percent; food, up 28.2 percent; clothing, up 21.4 percent. In 1988, national income only registered an increase of 11.4 percent over the previous years.<sup>23</sup> The institutional basis for this pattern of consumption demand is as follows: With a muddled property system, the lack of accumulation mechanism and the softening of budgetary constraints, enterprises which are allowed a substantial increase in the share of profits retained for their own use can directly convert almost all (or a large portion) of their profits into personal income. While personal income rapidly increases, the lack of fund-pooling mechanism and market for commercialized housing means that the substantial increase in personal income will naturally be spent on food, clothing and other consumer needs. Second, the acceleration in the progress of rural industrialization and the diversification in the source of peasants' income in recent years have changed the old practice of having to rely completely on the sales of farm and sideline products for the purchase of industrial goods. This has brought about a change in

the opportunity cost of peasants' choice in the planting, selling and consumption of farm and sideline products, and this is responsible for concentration of the purchasing power of peasants and urban inhabitants and the rapidly expanding institutional purchasing power on competitive demand for the consumption of farm and sideline products and home electrical appliances. As regards investment demands, there is an increase in demand for funds to be concentrated in the lower-stream industries (particularly the newly developed consumer industries). The institutional background for this pattern of investment demand is the plurality of investment entities which has emerged on the basis of separate financial jurisdictions and expanding autonomy of enterprises. The prices of products of middle and lower-stream industries, which were already quite high, were among the first to be freed from restrictions in the price reform in recent years. Home electrical appliances, in particular, have a high profit margin and can benefit substantially from the official and actual exchange rates in the import of components and parts and in the sales of manufactured products in the domestic markets. It is thus natural that there is an increase in the demand for extra-budgetary funds from these middle and lower-stream industries. Compared with the above two areas, demand seems to be weak in science, technology, education and technological renovation. Third, the long-standing contradictions in total volumes as seen in total demand exceeding total supply will further deteriorate and change the existing industrial structure into a demand-pulled structure. The reason for this is that under constant pressure with total demand greatly exceeding total supply, the government will be forced to issue more money for financial purposes and prices will skyrocket. With less and less confidence in the currency and the anticipation that inflation will worsen, people will rush purchase and stock up clothing, food and other consumer goods. Consequently, demand for farm and sideline products (also light industrial goods using farm and sideline products as raw materials) and home electrical appliances will stay high. In the meantime, the constant contradictions in total volumes will incessantly stimulate the expansion impulse of local governments and enterprises to invest in the middle and lower-stream industries, thereby bringing more pressure to bear on the Central government in subsidizing the people for price rise and investing in the upper-stream industries. Fourth, the import/export structure already formed and the worsening conditions of foreign trade will impose restrictions on the alleviation of the existing structural conditions. This is so because while economic growth is becoming increasingly more dependent on import, the proportion constituted by equipment, components and parts needed by the newly developed industries, equipment for technological renovation, and high-grade consumer goods in the import structure remains high, thereby increasing the pressure on the export of farm and sideline products, mineral products and other primary products. The trend of price changes in the world market is causing the foreign trade environment of this import/export structure to deteriorate, and the forthcoming

foreign debt repayment peak will make it difficult to effectively improve the existing import/export structure (particularly the export structure) and the foreign trade conditions.

It is thus obvious that the task of improving the current macroeconomic situation by putting industrial policy at the core, making combined use of financial, monetary, foreign trade as well as administrative, legal and other administrative means, and proceeding from the alleviation of structural contradictions is not only necessary but also extremely arduous.

#### **IV. Establish a New Pattern of Macroeconomic Control and Regulation Through Industrial Policy**

With regard to the reform of macroeconomic management, we must not only change from mainly relying on administrative means and mandatory planning to mainly relying on economic means and guidance planning, but must effect a new change in the target of macroeconomic management. We must overcome the traditional mode of taking the microeconomic level of enterprises as the direct target of interference. Neither should we stop at the macroeconomic level of taking a number of macroeconomic totals targets as targets of regulation and control. Instead, we must penetrate into the process of social reproduction, interfere in the industrial structure on the mesoeconomic level, and use this to dovetail macroeconomic and microeconomic activities, thereby shifting the focus of planned management to the formulation and implementation of industrial policy. For a developing socialist country, the maintenance of equilibrium in terms of macroeconomic totals and the promotion of structural advancement in economic development are two major targets of macroeconomic management. The establishment of a new mode of macroeconomic management through the systematic and long-term formulation and implementation of industrial policy is the direction of our reform of the macroeconomic system.

Planned management with the implementation of industrial policy as its focus will no doubt constitute the basis of China's new mode of macroeconomic regulation and control. Its difference with the traditional mode of planned management lies not only in the choice of regulation and control targets but in the fundamental difference in the anticipation of regulation and control and the procedure of deciding policies of regulation and control. In terms of the anticipation of regulation and control, traditional planned management seeks to make arrangements for the economic activities of the whole society in a unified plan. Everything, big or small, from production to consumption, from microeconomic matters to macroeconomic affairs, is subject to the unified control of the state plans. Moreover, no deviation is tolerated in the course of implementation (there is the saying that planning is equivalent to law). Hence, obligatory administrative orders are its basic features. There is no doubt that planned management with the implementation of industrial policy as its focus should reject

this kind of anticipated regulation and control. Our anticipation of new kind of macroeconomic regulation and control is: A certain policy environment with an obvious tendency should be created to guide enterprises in developing in a particular direction and restrict them from developing in the opposite direction. In such a policy environment, enterprises are still vested with all decisionmaking powers. The thing is, if the choice decided on by enterprises is in keeping with the direction charted by the policy environment, they can increase their earnings; if not, they will have to increase costs and be faced with a cut in earnings. In this connection, we must, just as Rostow noted, "cast away the illusion that planning organs "can control, regulate and even immediately control all possible consequences of actions initiated by" planning decisions. "Hence, the most meaningful and effective planning and policy making lies not in what all-embracing and precise control of policy making will bring about, but rather in the creation of a general environment of stimulation and restrictions. In this environment, the outcome of policies—the reaction of the people in their millions who are affected by these policies also have to be taken into consideration—will be positive and useful to the greatest possible extent." <sup>24</sup> Seen from the procedure in deciding policies of regulation and control, the traditional practice of planned management relies on a unified planning organ (State Planning Commission and its subordinate planning committees) to formulate, hand down and implement all-embracing plans. The only chance that plans of this kind may be revised or upset is on the directive of a particular leader, or through the telephone call or instruction of a particular official. Enterprises, the public and the academic circles are basically unable to influence the formulation, implementation and result of these plans. On the contrary, the process of deciding on and implementing industrial policy must have the cooperation of enterprises, various social strata (such as trade associations, trade unions, social and consumer organizations), the academic circles and state organs responsible for relevant economic functions (such as the planning committees). This kind of cooperation should not be confined to the solicitation of opinions from enterprises, various social strata and the academic circles, but should be aimed at providing enterprises, various social strata and the academic circles with the necessary institutional guarantees in the procedure of deciding on regulation and control policies. Most important of all, we must establish a statutory national industrial policy review committee which will ultimately be responsible for deciding industrial policy programs for various periods. In this authoritative policy-making organ, enterprises, various social strata and the academic circles should have their fixed seat and definite voting power. Of course, considering the actual conditions in China at the present stage, the formation of such a procedure of deciding policies of regulation and control will require a considerably long historical process.

# Footnotes

1. As far as I know, there are the following major concepts regarding the term industrial policy: (a) It is a general term for all government policies regarding industry. See Jun Shimokawabe and Shigeru Kange (ed.): *Modern Japanese Economic Encyclopedia*, China Social Sciences Publishing House, 1982, p 192. (b) It refers mainly to remedial policies adopted by the government to correct mistakes that may have been produced by the market mechanism. See Ryutaro Komiya (ed.): *Japan's Industrial Policy*, Tokyo University Press, 1984, pp 2-5. (c) It refers to planning, that is, government intervention in the direction of future changes in the industrial structure. See A-mi-ta-yi Ai-te-yi-ao-li [7093 1378 1044 0122 5337 3676 0122 1159 0448] in the January 1985 issue of *SOCIOLOGICAL JOURNAL OF AMERICAN ECONOMICS*. (d) It refers to policies aimed at strengthening the competitiveness of a country's products in international markets. See Zhou Shulian [0719 0647 5571] and Yang Mu [2799 3092] (ed.): *Studies on Foreign Industrial Policies*, Economic Management Publishing House, 1988, p 410. The views expressed in this article reflect important features of all these concepts.
2. See Yang Yunlong and Liu Wei [0491 0251]: "The Establishment of China's Historical and Multidirectional Macroeconomic Management Theory," *JINGJI YANJIU*, No 8, 1988.
3. Edward Shapiro: *Macroeconomic Analysis*, China Social Sciences Publishing House, 1985, p 9.
4. *Ibid.*, pp 564-565.
5. Albert O. Hirschman: *The Strategy of Economic Development*, Bank of Taiwan, 1974, pp 4-8, 18-20.
6. For the various methods of calculating and analyzing structural performance, see Liu Wei and Yang Yunlong: *An Analysis of China's Industrial Economy*, China International Broadcasting Publishing House, 1987, Section 2, Chapter 2.
7. See Walt W. Rostow: *The Stages of Economic Growth*, Commercial Press, 1962, pp 10-107; *The Economics of Take-Off Into Sustained Growth*, Sichuan People's Publishing House, 1988, pp 1-25.
8. Charles P. Kindleberger and Bruce H. Herrick: *Economic Development*, Shanghai Translation Publishing House, 1986, pp 210-213.
9. Walt W. Rostow: *The Economics of Take-Off Into Sustained Growth*, pp 9, 12.
10. See Yang Yunlong: "On the Structural Development Models of China's Economy," *JINGJI YANJIU [ECONOMIC RESEARCH]*, No. 3, 1988.
11. For the calculation and comparison of similar structural coefficients, see Liu Wei and Yang Yunlong: *An Analysis of China's Industrial Economy*, Chapter 2.

12. See Study Group on Questions of China's Rural Development: *A New Stage of Growth in the National Economy and Rural Development*, Zhejiang People's Publishing House, 1987, pp 1-17, 96-115.

13. See JINGJI YANJIU [ECONOMIC RESEARCH], No. 3, 1989, p 10.

14. Park Song-sang: "Economic Development and Industrial and Monetary Policies of South Korea," JINGJI SHEHUI TIZHI BIJIAO [COMPARISON OF ECONOMIC AND SOCIAL STRUCTURES], No. 2, 1989.

15. See H. Chenery: "Structural Changes: The Procedures for Positivist Studies on Economic Development" in *New Patterns of Development Economics*, Economic Science Publishing House, 1987, p 22, Chart 1.

16. Park Song-sang: "Economic Development and Industrial and Monetary Policies of South Korea," JINGJI SHEHUI TIZHI BIJIAO (COMPARISON OF ECONOMIC AND SOCIAL STRUCTURES), No. 2, 1989.

17. See State Statistical Bureau: "Communique on 1988 Plan for Economic and Social Development," RENMIN RIBAO, 1 March 1989, p 2.

18. Dong Fureng [5516 6534 4356]: *Studies on Economic Development Strategies*, Economic Science Publishing House, 1988, pp 94-98.

19. See SHIJIE JINGJI DAOBAO, 6 March 1989, p 1.

20. At present, a quite effective way of carrying out differentiated directional cutting back of demand in different industries is the formulation of investment arrangements which, on the quantitative level, constrict investment demand; the levying of heavy consumption tax (for instance, setting the basic tax rate at over 100 percent of retail price) to cut back certain consumption demands.

21. See JINGJI YANJIU [ECONOMIC RESEARCH], No. 3, 1989, pp 5-8.

22. See RENMIN RIBAO, 1 March 1989, p 2.

23. See RENMIN RIBAO, 1 March 1989.

24. Walt W. Rostow: *The Economics of Take-Off Into Sustained Growth*, p 4.

### Separating Taxes, Profits in Contract System Opposed

90OH0226A Beijing JINGJI CANKAO in Chinese  
18 Dec 89 p 4

[Article by Shi Wo (4258 5815)]

[Text] China's present financial situation is very grim. In order to extricate ourselves from our financial predicament, it will be necessary to take a series of steps,

including ones to perfect the current enterprise contract management responsibility system. It should be pointed out that although no approaches to perfecting the contract system should try to evade the fact that we have financial difficulties, how to actually perfect the enterprise contract system so that it will be able to both contribute to further arousing enterprise initiative and also ease our present financial difficulties to a certain extent, has become a major source of conflict that is hard to dodge in the current campaign to improve the economic environment and rectify the economic order of our national economy.

### Separating Taxes From Profits Makes It Hard To Effectively Restructure Our Actual System of Distribution

One complaint is that our present financial difficulties were caused to a great extent by the decrease in profits paid into state finance by contracting enterprises. It is pointed out that the realized profits of budgeted industrial contracting enterprises throughout China rose 19.8 percent while the profits turned over to the state increased only 1.4 percent from 1986 to 1987, realized profits rose 18.2 percent while the profits turned over to the state dropped 9.7 percent instead in 1988, and this decreasing trend in profits paid into state finance became even more serious in the first eight months of 1989. The major reasons for the decrease in profits turned over to the state were that the targets and progressive increase rates for contracted profits to be paid to the state were set too low, and that enterprises were made responsible for their profits but not for their losses. Thus, in our profit distribution, the proportion of profits turned over to the state dropped 16 percent from 1986 to 1988, and 24 percent from the first eight months of 1986 to the same period in 1989. Even if circulation taxes were included, the proportion of profits paid into state finance still dropped, with the taxes and profits turned over to the state by contracted, state-owned industrial enterprises throughout China constituting 74.6 percent of enterprise net income in 1986, 70.9 percent in 1987, and 65.9 percent in 1988. Moreover, circulation taxes certainly do not truly represent an enterprise's contribution to the state, because China's circulation taxes are included in prices and paid mostly by consumers. Thus, it was thought that our distribution system should be restructured through separating taxes from profits, in order to ease our financial difficulties.

It should be pointed out that the relationship between enterprise contracting and state revenue should not be analyzed from the viewpoint of profits paid to the state alone, but that consideration should be given to both the profits that are paid to, and also the taxes that are collected by, the state. The reason why contracting enterprises earned more profits but paid less of them to the state in both 1987 and 1988 is certainly not that enterprises paid less into state finance, but rather that the state now uses more ways to collect money. Only 21 percent of the revenue provided by state-owned industrial enterprises in 1989 came from profits turned over to

the state, while about 79 percent of it came from things, such as circulation taxes and power, transportation, and key construction funds. There are obviously insufficient grounds for ignoring the facts that the amount of income that enterprises turn over to state finance has increased year after year and that the major part of the revenue that enterprises turn over to state revenue has greatly increased, while criticizing the financial effectiveness of contracts by pointing to the one item alone that profits turned over to the state accounted for only 21 percent of revenue. Relevant statistics show that the state has been forced in recent years to take steps, such as imposing new taxes, raising tax rates, collecting power, transportation, and key construction funds, and selling national treasury bonds, to take back as much as 70 percent of the financial resources that were freed up to enterprises through reform. About 69 percent of enterprise realized profits (net income) in 1988 and 1989 were turned over to state finance, 11 percent were used to repay loans, and 2.8 percent were turned over to the state as power and transportation funds, while enterprises kept a net profit of only 16 percent. Moreover, although as much of enterprise retained profits as possible were urgently needed to improve management, a considerable part of them were used to expand production, which simply increased the value of state-owned fixed assets.

#### **Separating Taxes From Profits Cannot Eliminate the Defects of the Contract System**

Although the present contract system is playing a certain role in developing the national economy, it is certainly hard to deny its defects. For instance, the tendency of many enterprises to substitute contracts for better management is likely to stimulate product price increases, is detrimental to industrial restructuring, and makes it hard to control increases in wages, bonuses, and the income of contract managers. Although the contract system may fail if these issues are not resolved, separating taxes from profits is certainly not a good way to eliminate these defects for the following reasons:

1. Separating taxes from profits is not a rigorous scientific concept. Separating taxes from profits is not a rigorous concept if it means separating already-separated circulation taxes from profits turned over to the state. Nor is it a scientific concept if it means separating income taxes collected on enterprise realized profits from after-tax profits. It is hard for the state to realize its dual status (of social controller and state-owned enterprise owner) toward state-owned enterprises in China's actual political and economic situation of public ownership of the means of production. This can be seen not only in that all of the income of our present state-owned enterprises belongs to the state and the whole people, but also in our different income tax rates that are set for different kinds of enterprise ownership. Setting different income tax rates for different types of enterprises or those of the same type with different forms of ownership, both makes it hard for enterprises of different natures or types to stand on the same track, and also makes it very hard to say that these taxes are collected by the state in

its capacity as social controller. This is without precedent in either the capitalist countries or the Soviet Union and Eastern Europe. These kind of income taxes can at most be said to be simply a form of state-owned enterprise profit distribution.

2. If it is thought that including income taxes and a fixed base in present contracts and turning them into after-tax contracts would be able to ensure increased revenue along with increased enterprise profits, then it must be accepted that this could be accomplished by perfecting contracts in diversified ways, such as putting into effect graduated rates and progressive taxes. Actually, it would still be very hard to ensure that these contracts would have less defects than the present ones, even if it were possible to separate taxes from profits and make contracts after-tax contracts. It is even less likely that these contracts would be better than the present ones since enterprises are now experiencing such a grim external climate, feeling a succession of shortages of funds, power, raw materials, foreign exchange, and transportation, and most recently facing the problems of weak markets and unmarketable products. Sticking to the contract system may be slightly more effective than separating taxes from profits, since factory directors and managers are on the verge of knocking their brains out to keep their enterprises alive. If we did not, production and efficiency might both slip, which China's present economic and political situation could hardly endure.

#### **Enterprises Should Be Allowed To Play Some Role in Accumulation**

The basic idea of separating taxes from profits is to gradually raise the percentage of state revenue in national income and have state finance play the major role in accumulation.

Although it must be admitted that China's past production and construction type finance achieved great successes by supporting and speeding up agricultural, industrial, transportation, and power construction and basically ensuring the need for key construction funds, some comrades point out that factors, such as investment decisionmaking mistakes, duplicate construction, construction delays, and fixed assets not being made available according to plans or left unused after they were made available, were the direct cause of about 1.3 trillion yuan of national key construction investment funds being wasted in the last 40 years. Even if the factor of duplicate planning was excluded, a conservative estimate is that one-half of the total investment of about 2 trillion yuan was still wasted. Since this phenomenon did not change in the last decade of economic reform, things would still have been hard for state finance even if more revenue had been raised. In fact, leaving aside the doubling and redoubling of national financial resources in the past decade, if items, such as the subsidies paid to enterprises that sustained losses and the net income that was used each year to pay debts were added, the income that was actually budgeted by state finance in recent

years was certainly not insignificant and certainly did not account for even the smallest percentage of national income.

One of the major tasks that must be accomplished to perfect the enterprise contract system is to give enterprises the ability to upgrade and expand on their own initiative. In particular, since China has begun to build a modern industrial system in the 40 years since the founding of the PRC, the primary crucial task of our economic construction, in addition to improving key construction of power and transportation facilities, is to carry out a large-scale technological upgrading of our existing enterprises. The basic policy of China's economic construction is to carry out intensive expanded reproduction in our existing enterprises. On one hand, this means that enterprises, and large- and medium-sized ones in particular, must be given the financial resources and capacity to upgrade and expand on their own initiative. On the other, it means that state finance must appropriately quit investing in economic construction, change from investing directly in economic construction to controlling and supervising funds in ways, such as formulating and implementing industrial policies, to change the present improper use of funds by enterprises, and create all the conditions to allow state-owned enterprises to play a role in accumulation. In summary, we must break free from the rules of the game, decide against the bad customs that normally apply, and explore certain effective strategies to effect a permanent cure, which would be well worth doing in this area.

#### **The Effectiveness of the Experimental Separation of Taxes From Profits Is Pending Further Observation**

Based on plans by the Ministry of Finance and the State Restructuring of the Economic System Commission, state-owned enterprises in certain cities began to experiment with "separating taxes from profits and using after-tax contracts" in January 1988. The following three major steps were taken: 1) Income tax rates were lowered, with the former 55-percent tax rate for large- and medium-sized enterprises and the eight-grade supergraduated tax rate for small enterprises being changed to a unified five-grade supergraduated tax rate, the maximum tax rate dropping from 55 percent to 35 percent, and the minimum tax rate being set at 10 percent; 2) Regulatory taxes were abolished and incorporated into after-tax profits, and diversified forms were put into effect to pay contracted after-tax profits to the state once every three years; 3) Repayment of special enterprise loans was gradually changed from before- to after-tax. The specific method was that some of the enterprise loans that were granted before the end of 1986 were to be paid before and some after income taxes, and all of the new loans that were made from 1987 on were to be paid after income taxes. "Separating taxes from profits and using after-tax contracts" has become the major way that these cities have handled the distribution relations between the state and state-owned enterprises for almost two years now.

These experiments over the last almost two years have aroused attention in all areas. Although many units have gone to investigate them, the verdict has not been unanimous. The results announced by the finance bureaus in these cities are that the gross output value, sales income, sales taxes, realized profits, income taxes and after-tax profits paid to the state, and retained profits of 242 industrial enterprises in 1988 increased 13.5 percent, 23.4 percent, 32.6 percent, 45.5 percent, 61.1 percent, and 40.0 percent, respectively over 1987; while the sales income, realized profits, income taxes and after-tax profits paid to the state, and retained profits of 212 commercial enterprises in 1988 increased 29.8 percent, 67.5 percent, 55.9 percent, and 127 percent respectively over 1987.

Some surveys of the 1988 final accounting reports of the state-owned industries in these cities show that, except for their realized profit taxes being higher than those of enterprises in the contract system, the other indexes of 202 enterprises that experimented with separating taxes from profits, such as profits paid to the state, realized profits, and sales income, were all lower than those for enterprises in the contract system. A survey by the Industrial and Commercial Bank of China of the enterprises in the cities that carried out these experiments found that since product price increases in 1988 and the big investment of funds to upgrade technology in 1987 and 1988 played major roles in these increases, it cannot be definitively concluded that separating taxes from profits would be a determining factor to increase production or income. Since the retained profits per worker in these experimental enterprises were far lower than the national average, even if all of the production expansion funds from their retained profits were used for after-tax loan repayment, it would still take them an average of at least eight years to as long as 30 years to pay off their loans. Other surveys found that although the experiments with separating taxes from profits have begun to succeed, since they have been underway for less than two years, during which time many factors have had an impact on their effectiveness, it is still quite hard, and further observation will be needed, to determine very precisely their success or failure. In summary, either in theory or in practice, separating taxes from profits is not a good way to resolve our financial difficulties or to eliminate the defects of the contract system.

#### **Greater Balance in Industrial Structure Proposed**

90OH0289A Beijing JINRONG SHIBAO in Chinese  
26 Dec 89 p 3

[Article by correspondent Tang Xiong (0781 7160): "Agony, Choices, and Hope. Written on the Conclusion of 'Discussion of Industrial Structural Problems'"]

[Text]During the last half of 1988, a mania of panic buying swept the entire country, and a run on the banks ensued. For the economy of the country in which "supply was less than demand" for a long time, this

amounted to one disaster being piled on another. Superficially, this mania stemmed from chaos in the market mechanism, the ineffectiveness of banks' macroeconomic regulation and control, and the seriousness of inflation, but the grim facts tell us that it was an aftermath of the enduring distortion of the country's industrial structure.

A report from the Analysis Office of the General Department of the State Statistical Bureau said that the basic state of imbalance in the country's economic structure was as follows: Further intensification of the conflict between supply and demand, the gap between supply and demand widening from 26.5 billion yuan in 1983 to 224.3 billion yuan in 1988; a precipitous decline in state financial revenues as a percentage of national economic income, and an increase in income outside the budget far in excess of growth of income within budget; serious proportional imbalance between industry and agriculture, the trend after 1985 being high speed development of industry and low speed faltering of agricultural production; a more conspicuous proportional imbalance within industry manifested in a concentrated way in the growth of energy, and raw and processed materials industries being extremely out of synchronization with other industries, particularly the processing industries; extreme lack of synchronization between transportation capacity and economic development; continued inflation of investment for a more irrational structure; and the appearance of a marked tilt toward individual residents in the distribution of national wealth.

An unbalanced industrial structure has long existed in China. In old China, our leading industries were incomplete. Their basic structure was unbalanced, and links between one sector and another and between one industry and another were feeble. Following liberation of the whole country, we undertook large scale economic construction in which fairly complete heavy industrial and light industrial systems were established. However, under control of the guiding thought of anxiety to succeed, we focused only on catching up with and surpassing the development of heavy industry of "England and the United States" to the neglect of agriculture, basic processing industries, and the development of industries for the production of consumer goods urgently needed in daily life. Although no great upheavals occurred, hidden dangers were left for future economic development. Today, the changes and the readjustment mechanism in the country's industrial structure are basically attributable to the highly centralized vertical administrative system, and the rigidity and disorderliness of structural changes.

The reform of the economic system that began in 1979 enabled changes in the country's industrial structure to enter a new era of development, major changes taking place in both the industrial structure's mechanism for change and the organizational environment. Personnel concerned describe those changes as follows: Accompanying an expansion of enterprise decision-making authority, and a gradual removal of price restrictions,

the market became a major force affecting the industrial structure. Differences in prices, as well as in profits or rates of return between different sectors became important parameters affecting the industrial structure. They generated a multiplicity of principal changes in the industrial structure. These changes held major significance in spurring coordination between the industrial structure and the demand structure, and in eradicating the backward state of agriculture and basic industries, thereby changing the country's industrial structure. However, since these changes derived from the foundation of the existing system, frictions between the new and the old systems were unavoidable. As expected, economic upheaval in the country's economy occurred during the second half of 1988.

#### **Deep Thought Following Birth Pangs**

Imbalance in the country's industrial structure led to economic upheaval, and behind the upheaval lurked the frictions between the old and the new economic systems following reform. What did these frictions occasion?

#### **Thought Number 1: Very Hard Going in Price System Reform; One Difficulty After Another in Readjustment of the Economic Structure.**

Price system reforms undertaken in 1979 beginning with an increase in the procurement prices of some agricultural byproducts narrowed the longstanding price scissors between industrial and agricultural products, reduced the country's financial burdens, and stirred the enthusiasm for production of all trades and industries. However, as more and more impetus was given to price reform, prices, as an important signal determining supply and demand relationships in the microeconomy, became murky making for difficulty in accurately reflecting the amount of resources, the rise and fall of industries, and changes in synchronization of the industrial structure.

Of course, the nub of the problem lay not in whether our price system did or did not require reform, but rather in whether we had taken all factors into consideration, and whether we had steadfastly and actively perfected markets, providing a fine climate for development of the industrial structure. Numerous manuscripts sent in for publication fully reflected these misgivings. A manuscript from Comrade Zhang Yu [1728 1342] in the Price Bureau Research Institute noted that: The lack of perfected key element markets [yaosu shichang 6008 4790 1579 1034] and key element prices [yaosu jiage 6008 4790 0116 2706] in the existing state-owned economy, makes readjustment of assets on hand and the movement of production elements extremely difficult, and this leads to a shortage in supply of resources on the one hand, and large amounts of idle resources and waste on the other. Comrade Zhong Mingrong [6945 2494 2837] in the State Council Office also said: Prices of transportation, energy, and raw and processed materials in China have also been rather low for a long time; as a result the level of profits in these sectors has been far lower than in

processing industries. Thus, acceleration of the development of transportation, energy, and raw and processed materials industries can only be so much empty talk. Readers Wang Yanchang [3769 1750 2490] and Zheng Xiangyang [6774 0686 7122] believe that upheaval in the market system, and the distortion of signals has meant a substantial weakening of the transmission mechanism for optimum allocation of resources, making correct judgments difficult.

**Thought Number 2: Government financial system reform increased the vitality of local economies, and also weakened state macroeconomic regulation and control capabilities. The effects of this on the industrial structure should not be underestimated.**

In the government financial system reform that began in 1980, level-by-level financial contracting demolished the pattern of central government "monolithic" centralized financial management and control, enhanced the financial authority of governments at all levels, and promoted development of the local economy. However, along with the dispersal of national financial resources was a lack of a needed benefits restriction mechanism. Consequently, local governments' desires for "career achievements" were abetted; funds outside budget ballooned rapidly; and local processing industries and township and town enterprises burgeoned. They competed with state-owned enterprises for raw materials and capital. Limited resources and funds were invested in senseless industries, and national resources were inexorably wasted in the process. Comrade Fan Yifei [5400 0001 7378] in the Finance Section of the Ministry of Finance said: The current accumulated structural problems are closely linked to the country's failure to regulate the distribution of social financial resources during the past several years. Government financial income as a percentage of national income declined year after year to less than 20 percent in 1988. The treasury's ability to pay for key national construction projects diminished greatly, and it was powerless to affect the structure of industry through readjustment of the investment structure.

Government financial system reform plays a role, no doubt, in spurring economic system reform. The goal of reform is very evident. It is both to provide a foundation for good economic development, and also to prepare the way for a more rational distribution of returns. Failure to build an effective benefits restraint mechanism is disadvantageous to a synchronization of the national industrial structure.

**Thought No. 3: Consumption inflation is intensifying; the contradiction between supply and demand is widening further; and our burden is too heavy.**

During the 10 years of reform, the cash income of the country's residents increased by as much as 17 percent, exceeding the speed of national economic development for the same period. The development of agriculture, light industry, transportation, and energy did not keep up with either population increase or increase in the

level of consumption. It is noteworthy that the basic characteristics of the country's consumer goods markets were as follows: Lack of overall balance manifested in total demand in excess of total supply; lack of structural symmetry manifested in commodity stagnation or glut while some commodities were in seriously short supply; incomplete markets, manifested mainly in many categories of consumer goods not being handled as commodities, as for example, houses, food, and medical treatment, as well as a series of products and labor services that were either supplied against ration coupons or shared equally. Thus, the country's consumer goods market was an incomplete sellers' market. This being the case, overly rapid increase in residents' income was bound to lead to an inflation of consumption. In addition, the importation of advanced foreign household appliances went out of control causing the enormous latent consumption power to explode within a narrow realm, giving rise to a false image of economic prosperity with "surpassing consumption."

Social group consumption, as an integral part of the country's consumer market, also zoomed in recent years. During the five year period from 1983 through 1987, social group consumption increased at an average 21.2 percent each year, greatly surpassing the speed of growth of both national income and financial income. In 1988, social group consumption increased 20.3 percent. One might suppose that the rapid increase in social group purchasing power played an important role in the inflation of the country's consumption demand, further widening the imbalance between supply and demand. An unwanted outgrowth of the early period of reform, the inflation of consumption made our burdens very heavy indeed.

**Thought No. 4: Investment inflation collided with the weak industrial structure occasioning frequent ups and downs in the country's economy**

Governments and enterprises at all levels in China cherish strong desires for investment. Expansion of investment usually spurs economic expansion, and the basic links in the industrial structure, such as raw and processed materials, energy, and transportation, stagger during periods of expansion, thereby causing fluctuations in the economy. In addition, we still lack a benign cycle mechanism in the economic fluctuation process. It is generally known that economic fluctuations frequently bring about changes in the economic structure such as mergers of enterprises, large scale movements of the workforce, or even unemployment. Although an "Enterprise Merger Code (Draft)," and regulations on the movement of labor have been formulated, the mobility of the workforce, and the unemployment that ensues from the failure of an enterprise are slight in both a quantitative and a qualitative sense. Therefore, changes in the industrial structure are manifested only in the rise and fall of output value with no fissioning at a deep level. The irrational nature of the economic structure, and the low ability to make change in it become the mortal weakness in our economic reform and development.

In summary, the birth pangs cannot be avoided; the frictions are not what we desired; and the imbalance in the industrial structure is intolerable, so where is the way out?

### The Way Out Lies in Readjustment

We have encountered numerous difficulties in the course of readjusting the industrial structure, but as Premier Li Peng said, our difficulties are temporary ones. They are difficulties in the course of moving ahead. With readjustments, the difficulties can be surmounted.

In September 1988, the State Council set forth the policy of "improving the economic environment and restructuring the economic order," thereby brightening the readjustment of the industrial structure. In March 1990, the State Council promulgated "Decisions on Key Elements in the Current Industrial Policy." This was followed by a nationwide inventorying and restructuring of companies; a tightening of bank credit, the initiation of principal-guaranteed savings [baozhi chuxu 0202 0237 0328 5552], rigorous control over group consumption power, and the beginning of readjustment of the industrial structure. Looked at from the present perspective, readjustment produced preliminary results, but the results were not ideal. During the past year, speed of national economic development has continued to decline. In particular, basic industries such as energy, transportation, and raw and processed materials, to which the state provides major support, have found the going hard because of the tightening of credit, and difficulties in sorting out enterprises' chains of indebtedness. Meanwhile, growth of township and town enterprises has been too fast. In terms of the market, the effects of the warming of the economy in 1998 have been difficult to eradicate, and the tasks confronting us remain very daunting.

Our main task at the present time should be how better to synchronize our industrial structure. The following work will have to be done to achieve this.

1. Smooth transformation of the economic system. Changing the industrial structure is interference in the resources allocation process within certain prescribed limits of authority, employing techniques that reflect the nature of the system. Therefore, the key to readjustment of the industrial structure lies in the establishment of an effective industrial structure readjustment mechanism. However, is such a change the only way to attain the goal? Comrade Zhang Yi suggests the following: Two changes should be made through reform of the country's economic system. First is enhancement of the central government's macroeconomic regulation and control capabilities, primarily a reshaping; the relationship between the central government and local governments, gradually bringing about a separation between national economic control and local public affairs functions, reducing local planning, financial, banking, and foreign trade macroeconomic control departments dependence on the local government; changing as quickly as possible the prevailing financial contracting distribution system,

gradually instituting a central government and local government tax apportionment system, increasing the central government treasury's percentage of total financial income. At the same time, all central government economic units should be better integrated into the macroeconomic regulation process, establishing a nationwide industrial coordination committee.

2. Increasing the effectiveness of industrial policies in regulating the industrial structure.

As a concomitant to Shanghai taking the lead in promoting a bill of particulars for readjustment of the industrial structure, other provinces, municipalities, and autonomous regions in the country, as well as individual departments also promoted their own industrial structure readjustment plans. After comparing these plans, we found some still not entirely rational provisions such as household electrical appliance producing industries being designated restricted industries, some provinces and cities continuing to retain them as key industries. As another example, some provinces and municipalities listed only things to be retained. They did not list things that should be eliminated, and their goals were fuzzy. No doubt such things might hurt the effectiveness of industrial policies. Not long ago, in replying to a question from this newspaper's correspondent, Zhou Caiyu [0719 2088 5940], the director of the State Statistical Committee Industrial Policy Department said emphatically, "Restriction is the key in the current readjustment of the industrial structure." He said that only by restricting and halting the industries and products that should be restricted and halted could more funds and materials be released to support the development of key industries; otherwise, it would be impossible to control the aggregate and hold down demand. In a manuscript he sent in, reader Zhou Zhenhua [0719 2182 5478] said the following: Implementation of China's industrial policy is extraordinarily necessary and timely; however, because of the problem of meshing certain policy objective formulators (including the central government and multiple economic control departments) with policy objective implementors (including various departments in charge, local governments, enterprises, and workers), industrial policies may be distorted in the overall process from their formation to their implementation, and results might also be impaired as a result of differences in understanding.

In order to insure the effectiveness of industrial policies in readjustment of the industrial structure, we must make full use of the banks' macroeconomic regulation and control function. That banks can have a great deal of clout in readjustment of the industrial structure cannot be doubted. Yin Shiliang [3009 0013 5328] of the Wuhu Municipal People's Bank said that banks use of credit in readjustment of the structure could spur both qualitative and quantitative changes in enterprises, manifested in the following ways: spurring enterprises to hasten the pace of readjustment of the structure; spurring enterprises to optimize their funds structure; spurring enterprises to produce readily salable goods; and impelling enterprises to strengthen internal controls. Huang

Zhongfa [7806 0022 4099] of the Finance Section of the Ministry of Finance believes that banks have a lot of clout regarding investment in agriculture. He said: Readjustment of the structure of agriculture is urgently needed. The paucity of agricultural resources is nationwide; it cannot be eased through marked regulation. In solving the problems of agriculture at their source, in addition to policies and the importation of technology, capital investment is most fundamental. However, it is noteworthy that quite a few difficulties still exist in coordinating credit policies with industrial policies. Reader Wu Yue [0702 6390] pointed out the following: The things to be supported or limited through control of credit that financial departments arrive at on the basis of industrial policies are frequently resisted by local governments' "little bill of particulars." In addition, the goal of banks in using credit policies to rectify and coordinate readjustment of the industrial structure is to optimize increments, and to readjust stocks on hand. However, the rigidity of our stocks on hand is very great, making readjustment extremely difficult. In addition is the macroclimate of tightening, which limits the total amount of investment of new funds, which are far from able to satisfy the need for capital to support industry. Thus, incremental increases also play an extremely weak role in readjustment of the industrial structure. Comrade Chen Tianhong [7115 1331 3163] also noted that there are three forms of structural readjustment available to financial departments, namely: the economic readjustment methods of interest rates and discounting; mandatory fee collections and administration-initiated "administrative allocations." [daimao xiada 2071 1604 0007 6671], and a mixture of administrative and economic readjustment methods. Because of various limitations, results will not be ideal by any means. Therefore, further deepening and perfecting of financial system reform is required to form an effective financial regulation and control mechanism.

In summary, the sacred mission of readjusting the industrial structure and straightening economic relationships has fallen on our shoulders. So long as we persist in a correct course, fully recognize the difficulties in moving ahead, and actively seek remedies, we will certainly be able to attain our goals.

#### **Works of Economist Xu Xuehan Lauded**

HK0612044789 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 10, 20 Oct 89 pp 49-54

[Article by Mao Tianqi (0379 1131 0796), Economic Research Institute, Chinese Academy of Social Sciences, written in August 1989: "Soberly Consider the Past—Discussing *Collected Works of Xu Xuehan*"]

[Text] Comrade Xu Xuehan [1776 7185 1383] is a Marxist economist of the older generation of our party. Beginning in the 1930's, he put great efforts into the popularization of Marxist economics and at the same time, in the light of China's semicolonial, semifeudal social nature, conducted deep research into the questions of rural economics and the development of national

industry. After the founding of the PRC, he also took on leadership work in the important economic sector and accumulated rich experience in macroeconomic regulation and control. He has experienced a lifetime of difficulties, but has maintained a fiery zeal for the party's cause and the state's economic development. The *Collected Works of Xu Xuehan*, which was recently published by the China Finance and Economics Publishing House, collects together the research achievements of Mister Xu during almost 60 years of his work. In the book, much space is given to his theoretical views on reform and developments since the 3d Plenary Session of the 11th CPC Central Committee. For 50 days in spring and summer of this year, a shocking disturbance was experienced in our country's political life. This disturbance, insofar as its root causes are concerned, was the result of a long period of the unchecked spread of bourgeois liberalization. However, seen from the economic angle, we cannot deny that this was also the bursting of an abscess of various accumulated conflicts of interest resulting from the growth of corruption within the party in recent years, the bureaucratic profiteering and unreasonable acts, the unfair distribution, the rise of prices, and the mistakes in decisionmaking on some major questions. Comrade Deng Xiaoping has candidly pointed out: "We must seriously do well in our own work. This incident has truly revealed many of our mistakes. We have certainly made mistakes. And these mistakes were not small ones!" Thus, he hoped that the whole party would very soberly examine the past and also consider the future. On reading the *Collected Works of Xu Xuehan* we discover that at every stage over the last 10 years, Mister Xu has put forward incisive suggestions for deepening reform and stabilizing the economy. At the same time, he put forward pertinent criticism of the errors which had already occurred or which were likely to occur.

After the 3d Plenary Session of the 11th CPC Central Committee, our party, on the basis of summing up the experiences and lessons of the past 30 years of socialist economic construction, established a new guiding ideology for economic construction. This involved clearly understanding the national situation and travelling a new road on which the speed was quite realistic, economic results were quite good, and by which the people could obtain more real benefits. In the reform aspect, with practice as the standard, doctrinaire understandings of Marxism and some mistaken ideas which had gone under the name of Marxism were done away with, the theory of a socialist commodity economy was put forward, and the overall goal of socialism with Chinese characteristics was clearly set down. With adherence to public ownership as the main aspect, the development of a diverse ownership economy and legitimate nonlabor income was allowed; and there was adherence to the combination of the planned economy and regulation by market mechanism as well as the development of the socialist commodity economy. In reform practice, in accordance with the principle of "liberating thought and seeking truth from facts" all sorts of exploration was

carried out. In respect of the enterprise operational system, experiments in forms of realizing public ownership were bravely carried out and the ossified concept that state ownership is the only form of public ownership was gradually changed. This meant that state enterprises developed in the direction whereby they could become independent commodity producers making their own decisions, taking responsibility for their own profits or losses, and being able to accord with the demands of the planned commodity economy. In respect of the regulatory system, exploration which allowed the various economic levers to be brought into play was carried out. In particular, in the process of readjusting the irrational pricing system and wage forms, experiences for improving the socialist market system were accumulated. In respect of the state management system, in accordance with the principle of combining the planned economy and regulation by market mechanism, specific methods by which and specific scopes over which to combine the two were sought. The transition was gradually made from mainly direct administrative management to mainly indirect economic management. Undoubtedly, this is a reform to change the ossified socialist model. However, in the overall process of reform and development, Comrade Deng Xiaoping's ideas on building socialism with Chinese characteristics have not only been opposed by some ossified, conservative, inert social and political forces, but have also been subject to the distortions of the bourgeois liberal ideological tide. Mister Xu warned in a timely manner of these two damaging forces. While adhering to the Marxist principle of "seeking truth from facts," in the consultations on macroeconomic decisionmaking by the highest levels of the state, he frankly set down his own theoretical proposals and suggestions for implementation.

China is a developing country and the level of development of the productive forces is low. However, labor supply is excessive. No matter whether we speak of the international situation or the domestic situation, they have both put pressure on the government to seek high-speed development in the political, economic, and social spheres. It has seemed that without super high-speed growth, the superiorities of socialism will not be manifest, full employment in society will not be realized, and we will lose the right to speak on international affairs. Thus, there has been a one-sided pursuit of high speed, which has left some painful memories for the Chinese people. In the three years of the Great Leap Forward produced losses of 120 billion yuan in national income. The 10 years of turmoil produced losses estimated at about 500 billion yuan. After the 3d Plenary Session of the 11th CPC Central Committee, we put great efforts into correcting this "chronic illness." However, in the latter half of 1984, the old problem of one-sidedly stressing high speed again resurfaced. The difference with the past was that this time it had Keynes' theory of consumption as a weapon. Thus, it began with tremendous force and some comrades did not consider China's national situation. When drawing in Keynes

theory of consumption, they did not pay attention to digestion. They put forward "the theory that an appropriate degree of inflation was beneficial" and proposed using inflation and excess supply of money to stimulate economic growth. At that time, Mister Xu worked in the original State Council Economic Research Center and, in response to the serious lack of control over the money supply, without mincing words he noted in an article written for RENMIN RIBAO: We absolutely must not use inflation as a means to stimulate economic growth. Rather, we should adhere to the principle of comprehensive balance. Comprehensive balance must remain the overall principle in formulating economic plans. He cited the lessons of China's economic construction and analyzed the problems of using financial deficits and inflation to carry out construction. He noted: Inflation results because growth in currency exceeds the objective needs. This includes the abnormal money circulation phenomenon whereby there is a rise in prices stimulated by depreciation of currency, which in turn results from the excessive issue of paper money and credit inflation. The amount of capital construction is not determined by how much paper money is in circulation, but by the volume of raw materials available. There has always been a "gap" between our social purchasing power and the volume of commodities which can be supplied, and the increase in currency will lead to a situation where goods and materials and raw materials are even less able to meet demand. This will in turn lead to shoddy manufacturing by enterprises, use of inferior materials in manufacturing, and the seeking of short-term benefits from the increased prices. The result of chaotic increases in prices will also mean that it will be difficult for enterprises to carry out their accounting and difficult for the state to formulate plans. There will also be difficulty in fairly arranging the economic interests of the various strata of society and this will directly endanger the improvement of the actual lives of the people. This will have very undesirable effects on the stability of the political situation.<sup>1</sup>

In facing the economic overheating and demand inflation which appeared in the latter half of 1984, the party Central Committee was sober-minded. At the party conference in September 1985, in a suggestion aimed at the Seventh 5-Year Plan, Mister Xu pointed out: The arrangement of construction must be beneficial to the carrying out of reform. We need to rationally set down a growth rate, so as to prevent blind competition and the seeking of an excessive rate of growth in output value and output volume, and to avoid tightness or chaos in economic life. He also pointed out: Construction needs to stress the improvement of economic results, so as to create a good economic environment for reform. However, some comrades, and especially some leading cadres in policymaking departments, have not only ignored the calls of science, but also failed to heed collective decisions by the party, vainly hoping to manage the "time difference" [shi jian cha 2514 7035 1567] between oversupply of money and high-speed growth of the

economy. Thus, by 1988, inflation was being publicly propagated in newspapers as a way to stimulate a high speed of economic growth and was being widely implemented in practice. By the beginning of this year, the speed of economic growth had greatly surpassed the capacity which national strengths could bear. Township and small town enterprises, with the support of local governments, were growing at an even faster rate, and there was overall tightness in the domestic market. In response to this, Mister Xu angrily lashed out and stated that the high speed of growth relies on the support of inflation. He noted that even Western capitalist countries used inflation only surreptitiously and openly admitted using it only when it came to a point where it could no longer be kept secret. And yet, we were openly advocating it. In the No. 4, 1988 issue of GAIGE magazine, he criticized by name those "news reporters" who encouraged inflation of a policy nature. This criticism by Mister Xu was far more pointed than his article in RENMIN RIBAO of four years previously. He listed the problems of using policy-nature inflation and pointed out that using inflation as a policy measure ran completely counter to the overall policy of stabilizing the economy and deepening reform put forward by the 13th party congress. Policy-nature inflation raised the price levels of domestic products and increased the production costs of enterprises. Thus, on the one hand, the load constituted by central financial subsidies to enterprises became heavier and on the other hand this affected the competitiveness of our country's products in international markets. It has increased the errors in financial income and meant that deficits are difficult to eliminate. Also, the false financial income figures, in turn, lead to a morbid demand by which people seek increased output value growth and the expansion of the scale of investment. This increases the degree of irrationality of the overall industrial structure. For a small number of people, and especially for a small group of "bureaucratic speculators," this has provided an opportunity to use the ever-tightening demand situation in the market to engage in profiteering and the seeking of exorbitant profits. This has greatly driven up the prices of goods and meant that the actual standard of living of the majority of residents who have fixed incomes has seen a decline. It has damaged the formation and improvement of the socialist market system and meant that enterprises cannot develop competition in a stable economic environment and under equal conditions. It has also been difficult to standardize the interests distribution relationship between the state and enterprises. In 1985, with the high speed of growth of industrial output value and the intense fluctuations of the market, policy-nature inflation, with the support of Keynes' consumption theory, was implemented in the various economic sectors. Nearly all the industries were forced into or drawn into the circulation sphere by the sudden rise in prices. Mister Xu pointedly noted that the government "had to grasp anti-inflationary measures as an important matter." He warned the policymakers, saying: "There is a need to give full attention to the price problem. Do not leave things to chance, do not continue playing with fire,

and do not use inflation to accumulate funds or to guarantee output value increases. If we are able to correct the ideas and practices of reform one month earlier, it will save us 1 year of losses."<sup>2</sup> The development of the situation was just as Mister Xu noted it would be. By "soberly examining the past," we can see that the actions from 1984—when some comrades proposed "the theory that an appropriate degree of inflation is beneficial"—right up to 1988, when policy-nature inflation was openly implemented, as well as the excessive issue of money in order to stimulate economic growth, led to an economic crisis. This was a major mistake in our reform and development. The *Collected Works of Xu Xuehan* gives us wonderful materials for soberly reflecting on this problem.

Our reform is a reform of the ossified socialist model. In a situation where theoretical preparations are insufficient, China's reform is an arduous process of "crossing the river by feeling for stones to step on." How are the various reform measures to be assessed? There should and must be a serious summing up on the basis of objective practice and economic facts. From this summing up, experiences can be extracted and lessons learned. The "overall contract system" is an example of this. We all know that in the past 30 years, we have carried out "reform" of the highly centralized economic system. However, the past "reforms" were but alternate handing down and recovery of economic power. They went around in circles with the central and local authorities power over distribution and redistribution, but did not touch on the problem of excessive control by the state, insufficient enterprise power, and the fact that mainly administrative methods and the will of the senior cadres were used in managing the economy.

In the late 1970's and early 1980's, the economic circles had a great interest in Sun Yefang's structural reform theories. In accordance with the theory of the separation of ownership rights and operational rights which he put forward in the early 1960's, the question of how to properly handle the relationship between the state's centralized leadership and the enterprises' independent operations was taken as the starting point for ideas on reform. On the basis of a large volume of experimental experiences and deep theoretical discussion since the 3d Plenary Session of the 11th CPC Central Committee, the party Central Committee in the "Decision on the Reform of the Economic Structure" clearly pointed out: Socialism with Chinese characteristics should first be socialism in which enterprises have full vigor. Thus, strengthening enterprise vigor is the key link in economic structural reform. We want to make enterprises truly become relatively independent economic entities and become socialist commodity producers and operators which take their own operational decisions and are solely responsible for their own profits and losses. They should have self-transformation and self-development capacities and become corporate bodies with certain rights and certain obligations.

However, in practical work, we have implemented various "overall contract systems" which actually go against the overall reform ideas, by guiding the reform again towards administrative division of power. With quite centralized materials, the *Collected Works of Xu Xuehan* carries out a theoretical analysis to determine whether the "overall contract systems" have improved economic results. For example, in respect of the financial and credit "overall contract systems," Mister Xu points out: Finance and credit are two important measures by which the macroeconomic regulatory system achieves its economic coordinating role. However, under the conditions whereby the contracts under the "overall contract system" will remain unchanged for several years, it will inevitably result in two regulatory and control measures losing their due roles. Under the financial contract system, the financial division by levels and proportional division from the early stage of the reforms have been systematized. After the provinces hand the contract tasks down to cities, counties and townships, it inevitably leads to the carving up of the market by every town, county and township, in order to strengthen its own financial income, as well as to the blockading of raw materials and product sales markets. The so-called "wool war," "silkworm cocoon war," and other struggles to obtain benefits resulted from this.

Further, local governments stress financial income and put great efforts into operating processing industries with short-term results. This has exacerbated the low-level, blind and duplicate construction in the processing industry. Contracts which slice up credit quotas greatly restrict the role of banks in financing. After the province cuts up its quota and hands it down level by level to the cities, counties and townships, the flow of funds is separated from the market and there is no way to talk about optimal arrangement of funds.

The various cities, counties, and townships all use their small credit quotas to fund small-scale projects, investment is mainly directed towards township and small town enterprises, and the local governments use credit to support the township and small town enterprises. This is one of the major reasons township and small town enterprises have seen such abnormal high-speed development over the last few years.

In analyzing the "overall contract system" for foreign trade and foreign exchange, Mister Xu points out that, in accordance with the contract tasks, the provinces hand down, through administrative orders, foreign exchange payment tasks level by level to the cities, counties and townships, and even down to the small towns and villages. This inevitably expands the scope for retaining foreign exchange and exacerbates the further dispersal of foreign exchange use, producing serious waste in the use of foreign exchange through activities such as duplicate imports, import of consumer goods, and the use of public funds to travel abroad. Meanwhile, the implementation of division by system or province in special industries such as the railways, posts and telegraphs, civil aviation and other national industries, directly harms economic

cooperation between the various links, strengthens the economic interests of levels, systems and provinces, and endlessly produces various economic contradictions and clashes.

The enterprise contract system has some debatable problems on the academic theory level. Mister Xu proceeds from whether or not something can improve economic results and carries out his analysis in a way which seeks truth from facts. He points out: With the widespread implementation of the contract system in enterprises, seen in terms of the short-term, microeconomic results, there has certainly been an expansion of the operational autonomy of enterprises within a certain scope. There has also, to some degree, been a motivation of the enthusiasm of the staff and workers for increasing output and increasing income, and this has allowed the guaranteeing of completion of financial income targets. However, seen in terms of long-term, macroeconomic results, there exist many problems.

First, the enterprise contract system has not really allowed enterprises to throw off the "vertical jurisdiction" relationship with their upper-level organs. It is difficult for enterprises to accord with the development of the socialist commodity economy and change to the "horizontal jurisdiction" of the market system. In the process of signing contracts, with the haggling between the upper-level organs and the enterprise operators, the result can only be that the control by the upper-level organs over the enterprises and the reliance of the enterprises on the upper-level organs are both strengthened.

Second, as soon as the contract is signed, it will be in force for several years without change. This is equivalent to accepting the legitimacy of the existing enterprises, including those which have poor operations and those with inappropriate production orientations, and to consolidating the present irrational economic structure. It also creates new obstacles to the readjustment of the economic structure and the reorganization of production factors. Thus, seen in terms of the macroeconomic, long-term economic benefits, the enterprise contract system is not a good reform measure. The "overall contract system" is an "absurd circle" which takes market-oriented economic structural reform and again draws in administrative division of power. This cannot but cause people to soberly reflect on the deep level of the structure and wonder whether it might not be reasonable to refer to the "overall contract system" economy as a "vassal economy."

In his consultancy for high-level state economic decisionmaking, Xu Xuehan does not restrict himself to "criticism." He also puts forward ideas and suggestions. Such suggestions also constitute quite a proportion of the *Collected Works*. Following the development of the socialist commodity economy, reform of the banking, financial, and price and wage systems has become extremely pressing. Mister Xu has explored these questions with much vigor. For example, in the banking area,

he looks at the relationship between changes in money volume and economic changes and the influence of changes in money supply on economic changes. By deeply analyzing the banking situation in China over 30-plus years, he points out the overall orientation for the reform of the banking system today. We should strengthen the position of the central bank so that the central bank enjoys, in accordance with the law, the power to maintain the stability of the value of money through its money issue policies. At the same time, there is a need to enhance the capabilities of the central bank. The central bank must be able to use scientific methods to correctly assess the economic development trends, the rational movement of the overall level of prices, and the normal speed of money circulation. This will facilitate the independent assessment of the appropriate total money volume. Mister Xu criticized particularly fiercely a formula which had wide currency for a while: That the rate of growth in the issue of money should be equivalent to the sum of the rate of economic growth and the rate of inflation. He points out that the central bank's money supply (including cash and deposits) must be strictly limited within the scope of national economic growth. The inflation rate must not be included in the calculations. He also held that there is a need to change the bank's functions, so that the bank changes from being a funds distributor and supplier to a macroeconomic regulator of money supply. There is also a need to change the traditional monetary policies of the bank, so as to accord with the development of the planned commodity economy. Monetary policies which use credit measures should gradually replace the outdated monetary policies which use administrative, physical means to regulate and control money volume.

Mister Xu also paid great attention to the reform of the pricing system and the wage system. Before 1984, Mister Xu's attitude to the reform of the price and wage systems was extremely "enthusiastic." He held that, at the time, the pace of economic reform was slow and the macroeconomic effects were small, and that many things were being obstructed by the pricing problems. He considered that the scientific basis for determining whether economic results were good or bad had been lost. Also, the situation in the wage system whereby there was "first confusion, then tight control and only subsequently a balance," could not really manifest the principle of distribution according to work, and it was very difficult to fully motivate the enthusiasm of staff and workers. The irrational price and wage systems have, in a way opposite to that expected, formed "counter-regulation." Thus, he required that the state restrict the scale of capital construction and provide some funds to support the reform of the wage and price systems. He wanted thereby to put into order the internal arteries of economic movement, bring into play the flexible regulatory role of various economic levers, especially the pricing and wage levers, and speed the pace of economic structural reform.<sup>3</sup>

However, after 1984, as Mister Xu saw the growing intensity of inflation, he went "cold" in his attitude to

the reform of the price and wage systems. He held that, in a situation where the pressure of inflation was extremely serious, the first requirement was the improvement of the economic environment and the control of demand. He thought that hastily carrying out overall price reform would very likely be a dangerous action. This was because, although price reform was a structural readjustment, it could also promote an increase in the overall level of prices. This would play a mutually agitating and mutually promoting role with the price rises induced by demand. The rapid rise in prices would mean that the hopes for the success of price reform would vanish like a bubble. This was because: 1) The supply-demand contradiction would become continually more intense and if price reform was not stopped, it would require all sorts of measures to put prices in order. This would mean that very soon after these measures were initiated, the spiralling increases in basic product prices and processing industry product prices would mean that the prices would become chaotic and distorted. 2) Double-digit or even higher price rises would mean that the vast majority of people would no longer have the capacity to bear the increases, people's morale would be sapped, and labor discipline would become lax. Thus, it would be difficult to formulate or initiate safe wage reform plans. 3) There would be no way to institute economic accounting in enterprises, microeconomic movement would lose its bearings, and the economic results and labor productivity which were not high originally would fall even lower. It would be difficult to organize production and circulation, barter exchange would become more popular, the cities would become separated from the rural areas, and the contradictions produced by the localities greatly growing in influence would become more serious. 4) There would be a sharp decrease in real financial income, the deficit would increase, chaos would occur in the developing financial market, international credit prestige would plummet, foreign exchange rates would crash, and the purchase of foreign currency in the foreign exchange black market would boom. 5) Corruption and profiteering would run rife, rule by officials would be harmed and the social atmosphere would deteriorate, seriously damaging the stability of the socioeconomic base.<sup>4</sup> When we look at the chaos induced by the "gate-crashing" price reform measures introduced in the second half of 1988, we see that these ideas of Mr Xu were certainly not alarmist talk, but things which eventually did actually occur.

In the latter half of 1988, our country's structural reform and economic development faced serious difficulties. Mr Xu directly and candidly analyzed the reasons for such an environment as follows: 1) The economic chaos produced by the claptrap idea of policy-nature inflation. 2) The urban reform model with its "administrative division of power between local governments" and, in particular, the "contracts" which had meant that the various levels of local governments had set up local regimes. The fact that the various sectors had the power to protect themselves also meant that the domestic

market, which was originally not very healthy, had been further split and the macroeconomic regulatory and control capacities of the central authorities had been greatly reduced. 3) The reforms lacked overall planning, measures were not coordinated, and the short-term actions on the policy level strengthened the drive of the various industries and professions to seek immediate economic benefits. The party, the government, the army, the people and the students all engaged in commerce, profiteering operations abounded, corruption became rife, prices shot up, distribution was unfair, and there was an uproar in the circulation sphere. 4) Political reform was tardy, while bureaucratism grew and became an inveterate problem. 5) A systematic, effective industrial policy was lacking. The orientation whereby the state provided "preferential treatment" to some regions and the measures by which local governments provided "preferential treatment" to some processing industries meant that basic industries, energy, communications, transport, and raw and semifinished material industries saw slow development. This artificially created regional and social development inequalities.

Xu Xuehan targeted some sensitive social problems and spoke directly in criticism. On the problem of "profiteering godfathers", he suggested that leading cadres should first control themselves, control their sons and daughters, and control the people who work around them. In China, power can still be capitalized on. Even when the cadre himself is honest, his children can use his power to engage in speculative deals. "In curbing chaos, one must use heavy punishment." The party must begin with itself and seriously enforce party discipline.<sup>5</sup> This provides us with new lines of thought in rectifying the environment and deepening reform.

In his research on practical problems, Mister Xu has placed great stress on the population problem. He has accumulated quite rich materials on the debates in population theory which have occurred in academic circles since the founding of the PRC, and he has conducted extremely deep-going research. From the high plane of completing the social and economic development strategies for the end of this century, he calculates a population account: If by the end of this century, China's population has grown by another 100 million, then in providing for these persons from birth to 18 years old when they take up employment, the families, society, and the state will be saddled with an additional financial burden of 1.2 trillion yuan, including investment in consumer goods and in providing employment. This will mean that there will be a great decline in the per capita area of cultivated land, the per capita volume of consumption grain, and per capita housing area. In turn, this will mean tighter state finances and more difficulties with employment and will add new factors of social instability. Thus, correctly arranging human production and the production of goods and materials are big problems in formulating socioeconomic development strategies. If there is any negligence or laxness in the population question, it will result in great pressure being put on socioeconomic development.

The *Collected Works of Xu Xuehan* also brings together 26 economic articles written before liberation. These articles, which were targeted at China's special economic contradictions, used rich materials, strict proofs, and clear-cut viewpoints to analyze industry, agriculture, railways, customs, and markets and even money, banking, and financial questions in China's semicolonial, semifeudal society. They reveal how imperialism's economic invasion had smothered China's national industry, and exacerbated economic bankruptcy in the rural areas. They reveal how the English, American, and Japanese imperialists carved up China's markets and plundered China's sovereignty in the railways, customs, money, banking and financial areas. They reveal how the separatist regimes of the feudal warlords and the civil war split the domestic market and how their joining together with feudal forces exacerbated the oppression and exploitation of the broad masses of peasants. These articles provide rich materials for teaching the younger generation about the economic situation and Chinese history before the founding of the PRC. The *Collected Works* also include some articles of reminiscence and, although they are about some comrades-in-arms who died early, they faithfully record some political, economic, and cultural historical facts about the party in different periods. They are thus of great use to us in understanding our country's past and in studying the rich experiences and noble sentiments of the older generation.

The *Collected Works of Xu Xuehan* cannot be said to be a specialized academic book, but many articles contain theoretical analyses and assessments by Mister Xu on major practical problems in different periods, based on his deep understanding of China's national situation and a high level of Marxist training. Whether or not these ideas are correct is of course open to debate. However, his criticisms and conclusions on some questions, for example in his criticism of policy-nature inflation, have been proven by practice and are completely correct. A more valuable strongpoint is the ability demonstrated by Mister Xu to grasp problems at an early stage, to see through them to their cause, and to correctly predict their development. When we soberly reflect on the past, and read the expositions contained in this book, we cannot help but feel deep respect for this economist of the older generation.

#### Footnotes

1. *Selected Works of Xu Xuehan*, pp 254-259.
2. *Ibid.*, p 332.
3. *Ibid.*, pp 233-243.
4. *Ibid.*, p 347.
5. *Ibid.*, p 356.

## FOREIGN TRADE, INVESTMENT

### Shanghai Official Urges Regional Trade With USSR

90OH0340A Shanghai SHANGHAI JINGJI  
[SHANGHAI'S ECONOMY] in Chinese  
No 6, 30 Nov 89 pp 19-21, 10

[Article by Hu Shuheng (5170 2885 5899), deputy secretary general of the Shanghai Municipal People's Government: "Shanghai Should Actively and Reliably Develop Regional Trade With the Soviet Union"]

[Text] From September to October 1988 I accompanied a Shanghai trade delegation on a visit to and inspection of the Soviet Union. We went to three big cities—Moscow, Leningrad, and Kiev—visiting eight ministries and commissions, regional and city governments and 12 industrial and mining enterprises, taking in all more than 20 days. On this trip we linked up information, increased friendship, held talks on economic and technological trade, found out the situation in the Soviet Union's reform of its economic system, and explored the direction and the ways for starting economic trade, regional trade, and border trade between China and the Soviet Union.

#### I. General Situation in Soviet Economic Management

In the Soviet Union's Third 5-Year Plan (1981-1985), the growth rates of society's gross output value, national income, industrial gross output value, and agricultural gross output value were all lower than those in the previous 5-year plan. In recent years the rates of economic development in Japan, China, and the European Community have all been faster than that of the Soviet Union. The Soviet Union's position in the world economy has fallen markedly, and so it has started to make reforms. At all levels contacted by our delegation, from Soviet ministers to union republic chairmen and factory directors down to factory staff and workers, they were all interested in and closely followed the progress, achievements, experiences and lessons of China's economic reform. The current general situation in Soviet economic management can be summed up as follows:

##### A. Five Fairly "Serious" Aspects in the Economic Management System

1. There is strict implementation of the production plan and the output distribution plan sent down by the state. A state plan includes the plans of the State Planning Committee, various ministries, and various union republics. If a factory director does not fulfill the state plan and if he does not strictly go through the state's stipulated production and distribution channels, he is dismissed from his post.

2. The drawing up and implementation of the raw materials distribution and supply plans is extremely strict. The Quota Fixing Bureau of the State Committee for Material and Technical Supply is composed of all

kinds of experts, and it fixes quotas and provides raw materials in strict accordance with the state's production plan.

3. Control of enterprise consumption funds is extremely tight. The funds kept by an enterprise after it pays taxes are divided into three parts: production development fund, about 60 percent; staff and worker welfare fund, 10 to 20 percent; and staff and worker bonus fund, 10 to 20 percent. Through discussion and agreement at a staff and worker representative meeting, the staff and worker bonus fund can be shifted to the welfare fund, and the welfare fund can be shifted to the production development fund, but a converse shift is absolutely impermissible. Also, the bonus amount is generally kept within a range of 30 to 50 percent of the basic wage.

4. Market prices are controlled in an exceptionally strict manner. At present, price relations in the Soviet Union are highly irrational. In general, the prices of agricultural and sideline products and of raw materials tend to be low, and the prices of machine-processed industrial products tend to be high. The state provides high subsidies for the supply of the people's daily necessities, and the fixed price levels have not been changed for a long time. For example, for meat there is the 1962 fixed price, for civil-use electricity, coal, and gas there is the 1946 price, and for rent there is the 1928 fixed price. The state is now carrying out reforms in a planned and measured way. It is said that in 1989 the prices of staple and nonstaple foodstuffs were readjusted, after which the subsidy per person per day was 10 to 20 rubles. The state-stipulated prices cannot be changed by any locality, department, or enterprise. For very many products, on the product itself, or on the outside of a package there is clearly marked a retail price in order to effect all-people supervision.

5. There is extremely strict management of foreign trade import and export rights and of product import and export licenses. Restrictions on the export of raw materials are very strict; restrictions on the import of top-grade consumer goods, like automobiles, color television sets, and radios are even stricter. Import and export rights were originally unified for the whole country by the Ministry of Foreign Trade. This has now been changed to three-level management: the central Ministry of Foreign Trade and the central industrial ministries, the union republics, and the large enterprises.

##### B. Fairly Tight Supply in Production and on Markets

1. Tight supply of foreign exchange. In 1987 the total amount of imports and exports of the Soviet Union was 128.8 billion rubles. According to the stipulated conversion rate of 1 ruble to \$1.6, this is \$206.08 billion (I understand that the actual exchange rate is 2 rubles to \$1). Of this amount, trade with China accounted for only 1.1 percent (Shanghai's trade only accounted for 10 percent of China's, mainly being with several East European countries and less with the Soviet Union), and its

trade with capitalist countries accounted for only 30 percent. Therefore, its foreign exchange is in extremely tight supply.

2. Extremely tight supply of the Soviet Union's motive power. For a fairly long time the Soviet Union's population has basically not increased, but in the factories the five-day work week system is practiced as well as the system of having 15 to 30 public holidays. On average, there are only about 230 working days in the year, less than 80 percent of China's average of 300 days. Some factories have a labor shortage and are operating under capacity, and they have even changed from the original three-shift system to the two-shift system, and from the two-shift system to the single-shift system.

3. Agricultural and sideline products are in short supply. With the exception of Moscow, which has wide open supply, in the other cities some commodities are rationed, but the rations are fairly large; for example, 2.5 kilograms of sugar and 3 kilograms of butter per person per month.

4. Light industry, textile, and electronic products are in short supply. There are big contradictions in supply and prices are high, for example, 50 to 60 rubles for a pair of cattlehide shoes, 30 to 40 rubles for a pair of sports shoes, 200 rubles for a medium-weight overcoat, and 1,030 rubles for a double-speaker tape recorder.

5. Food preparation service is in short supply. The development of tertiary industries is slow. In particular, the food preparation service is far from being able to satisfy people's needs, and so the situation of forming line to get something to eat is extremely serious.

## II. Exploration of the Expansion of Regional Trade With the Soviet Union by China's Large- and Medium-Sized Cities

### A. Possibility of Expanding Regional Trade With the Soviet Union

1. Sino-Soviet relations are gradually improving.

2. The two industrial structures have a fairly strong mutually beneficial nature. In the Soviet Union, the exploitation of raw materials and the development of heavy industrial production are fairly fast and their potential is fairly large, but light industry, textile, and electronic products are rare, their prices are high, and the market supply does not meet the demand. Shanghai's light industry, textile, and electronic products are fairly developed, but its raw materials are in extremely tight supply. Cooperation between the two sides can display their strong points and avoid their weak points, be of mutual benefit, and develop in common.

3. The reputation of Chinese products, especially Shanghai's products, on Soviet markets is high. In the trade with the Soviet Union in the fifties, Shanghai Port accounted for 70 percent of China's total trade. In every large general merchandise company in the Soviet Union,

the older staff members are very familiar with Shanghai's products, which they praise and welcome. Also, there is a particularly big demand on the Soviet light industry, textile, and electronics markets. For example, in footwear, calculating that at the least one person needs three pair in one year, in one year there is a need for 700 million pairs.

4. In Soviet economic management, there is a fairly serious situation of separation of "departments and localities." After several years of reform we have made progress in the concept of the commodity economy, and we can display our overall superiority in this respect in trade with the Soviet Union.

### B. Beneficial Nature of Expanded Trade With the Soviet Union

1. We can directly obtain and return some raw materials in short supply.

2. We can save a large amount of foreign exchange. In the trade with the Soviet Union, we can exchange fairly many raw materials at 100 percent of their export value, thereby reducing the amount of foreign exchange used for the import of raw materials.

3. We can sell some commodities that are unmarketable in China now, like semiconductor radios and tape recorders, washing machines, vacuum cleaners, television sets, touring shoes, and medium-weight jackets, sweaters, and overcoats.

4. China's export of technology and labor will benefit, for example, in mounting equipment for washing machine sets, mounting of tape recorder sets, leather machines, and mounting of building construction.

## III. Some Suggestions

Because the Soviet Union has a very great superiority in raw materials, recently Japan, South Korea, and Federal Germany sent many people to the Soviet Union to develop cooperation by means of their experience in advanced technology. In China, the province and autonomous regions of Xinjiang, Heilongjiang, and Inner Mongolia in the eighties developed border trade with the Soviet Union, and they enjoyed advantages in communication. Shanghai must directly catch up and quicken the pace in this respect. To this end we must first of all unify thinking and attach importance to regional trade with the Soviet Union, and then take corresponding measures to organize the economy.

A. Establish a liaison point. First, send a small number of trade delegations, and on this foundation set up a government administrative organization, in the form of "two signs and one group," with trade made primary while concurrently having some government functions, and sever the link between working personnel and government. This administrative organization should collect and study relevant data on the direction and policy of the reform of the Soviet economic system in order to

expand the information provided on trade and in order to have enterprises act as go-betweens in building bridges for cooperation with the Soviet Union.

B. Formulate preferential policies that encourage enterprises to expand regional trade with the Soviet Union. The enterprises do not have foreign exchange reserves for regional trade, but they can return more raw materials, among them some for private use and some for all-society regulation. With regard to specific policies and methods for compensating relevant economic interests, I suggest that the Planning Commission, together with foreign trade committees, economic committees, financial departments, materials departments, and price departments, study and formulate them.

C. Define, for regional trade with the Soviet Union, the administrative department and the comprehensive coordination department. I suggest that we define the Shanghai Municipal Foreign Trade Corporation, which is subordinate to the Shanghai Foreign Economic Relations and Trade Commission, as the centralized administrative unit responsible for planning, guidance, inspection, and service; and that the municipal planning commission be the department for comprehensive coordination and balance and that its corresponding scope of duties be defined.

D. There is a large potential for expanding Shanghai's regional trade with the Soviet Union, and many excellent conditions exist for it, but the greatest restraining factor is transportation. We must initiate maritime transportation, giving preliminary consideration to three places: 1) Vladivostok; 2) Black Sea, Odessa; and 3) Baltic Sea, Leningrad. I suggest that we ask the communications offices and committees of various cities to study this question together with the relevant departments.

E. Swiftly develop multilevel, multichannel, and multi-form regional trade with the Soviet Union. In industrial production the Soviet Union stresses processing. It is not easy for us to obtain raw materials directly. Therefore, we should adopt various flexible forms of economic and technological trade cooperation to obtain raw materials by multilevels, multichannels, and multiforms. Multilevel—at the center the Soviet Union has three levels of import-export trade rights, namely, ministry, union republic, and large enterprise; we can trade with it on a relative or interlocking basis. Multichannel—government departments, among enterprises, and non-government organizations (including the Soviet Union's supply and marketing cooperatives. Multiform—1) commodity exchange trade; 2) source material processing; 3) labor export; 4) technological cooperation; and 5) joint capital ventures and cooperative production.

F. Vigorously take the initiative, establish a reputation, show great foresight, and expand influence.

1. With regard to the projects of an intent nature on which agreement has been reached in Shanghai's regional trade with the Soviet Union, the departments and bureaus should timely respond, and also vigorously

take the initiative and press the Soviet Union, because generally speaking the Soviet Union's organizations are large, its policy-making procedures are complex, and its feedback of information is fairly small.

2. With regard to the agreements or cooperation projects that have already been signed, we must strictly honor them and make deliveries on schedule.

3. We must enhance quality inspections and checks to insure high product quality.

4. In economic and technological cooperation, we must be astute and even more must be wise, that is, we should not be a stickler about gains and losses on interest distribution or goods prices on one thing at one time, but should stress being able directly or indirectly to return fairly many raw materials or semifinished goods.

#### **IV. In the Current Development of Regional Trade With the Soviet Union, There Are Several Problems Worthy of Attention**

A. At the present time, compared with China's economy the Soviet economy is highly centralized, and cooperation or joint ventures with Soviet enterprises needs to be effected through Soviet industrial-commercial societies (similar to China's trade promotion societies or counterpart ministries and commissions).

B. We now pay close attention to the direction and the moves in Soviet economic reform and to the changes in Soviet trade reform, for example, the new wholesale prices that will appear in the Soviet economy in 1989-1990 and the new tariffs that will go into effect in 1990. The 1990 Soviet list of export-import commodities that are limited or prohibited stipulates that permission needs to be obtained before 8 categories and 14 kinds of commodities can be imported, permission needs to be obtained before 22 categories and 99 kinds of commodities can be exported, and the export of 8 categories and 30 kinds of commodities is prohibited.

C. When in talks the Soviets sign a "statement of intent," they emphasize "seeing the facts."

D. The Soviet Union does not limit the proportion of foreign capital in a joint venture, emphasizing that, by the two-party agreement, the principle of taking care of oneself is put into effect for foreign exchange.

E. The Soviet Union levies a tax rate of about 30 percent on joint ventures. In the first two years profits are not taxed (in the Soviet Far East this period is the first three years).

F. Within Soviet borders prices are negotiated on marketable products and supplied materials, and a foreign trade unit can discuss prices with its clients.

G. The main thing now is that in our regional trade with the Soviet Union we not take precipitate action, but rather act in an organized, planned, directed, and measured way. We must not solely proceed from our own

units' interests, and even less must we solely depend on the other party's needs to make more exports. We must achieve a basic balance in import and export trade, implement the principle of "fixing export by import," and prevent large surpluses. At the same time we must strengthen price coordination between cities, and at the least have a mutual information link and prevent "killing each other."

H. Shanghai must have a unified, coordinated, balanced organization, and even confer on it the necessary right of "administrative intervention" to prevent an "outflow of fertilizer and water."

I. Labor-export personnel must pass a strict government examination and must be of a certain professional level in order to prevent damage to the national dignity and prestige of the PRC.

J. In tertiary industry cooperation, more attention should be paid to the question of the foreign exchange balance.

#### **Overall Imports Rise, Luxury Goods Decline**

*HK3001010690 Beijing CHINA DAILY in English*  
30 Jan 90 p 2

[By staff reporter Yuan Zhou]

[Text] Imports of crude oil, coal, iron ore, grain, steel, and other necessary goods were higher last year than the year before. Imports of luxury goods, however, declined.

According to the latest figures from the Chinese General Administration of Customs, crude oil imports rose by 281.8 percent, coal 35.2 percent, iron ore 19.46 percent, grain 8.1 percent and steel 3.7 percent from 1988 figures.

During 1989, the nation imported 3.3 million tons of crude oil, 2.3 million tons of coal, 12.6 million tons of iron ore, 16.6 million tons of grain and 9.5 million tons of steel.

During the same period, China also spent \$487 million to import 10.3 million tons of edible oil, 382 percent more than in 1988.

According to the customs service, China imported goods worth \$59 billion, seven percent more than in 1988, and exported \$52.5 billion, 10.5 percent more.

Liu Xiangdong, spokesman for the Ministry of Foreign Economic Relations and Trade said that imports of goods essential for national production and the people's standard of living increased last year while the import of luxury consumer goods was checked.

The customs figures show that imports of washing machines fell 59.4 percent to 12,225, household refrigerators imports dropped by 0.53 percent to 437,955 and colour TV sets were 12.2 percent lower at 402,324.

Imported cigarettes dropped by 45.2 percent to 43.8 million cartons.

But despite the government austerity drive, imports of cars rose 35.8 percent to 44,998 and video cassette recorders rose 47.6 percent to 45,179.

Two-way trade between China and its main trading partners was brisker last year, according to the customs figures.

China exported goods worth \$21.9 billion to Hong Kong, a 20 percent increase over 1988, and imported goods worth \$12.5 billion from Hong Kong, a 4.7 percent increase.

Imports from Japan fell 4.5 percent but exports to Japan rose by 5.8 percent. The total Sino-Japanese trade figure hit \$18.9 billion.

### **ECONOMIC ZONES**

#### **Ningbo Bank Finances 19 Key Construction Projects**

*90OH0297C Hangzhou ZHEJIANG RIBAO in Chinese*  
27 Dec 89 p 1

[Article by Li Shifang (2621 0013 5364): "Ningbo City Construction Bank Raises More Than 600 Million Yuan for Support of 19 Key Construction Projects"]

[Text] The Construction Bank in Ningbo City has held to a tilt policy with regard to funds, investing 607,452,200 yuan in 19 key national, provincial, and municipal construction projects, insuring the funds that these projects urgently need, and accelerating the projects.

In order to support the building of key projects, the Construction Bank in Ningbo both promptly readjusted its loan structure, insuring credit for key projects and for projects to go into production, but cutting back on ordinary projects requiring credit. It used every available means to juggle funds, winning active support for so doing by the bank at a higher level. It also borrowed from inside and outside the system, thereby assuring funds needed for key construction projects. For example, 20 million yuan was needed to put the first phase of the key national construction project, the Beilun Power Plant, into full operation. The bank used various measures to raise the funds to meet the project's needs, enabling the project to begin operation on time.

In order to solve the funds investment shortfall, the bank put its shoulder to the wheel, taking the initiative to get not only investments of a national policy nature, but also actively using its own savings deposits to issue loans to make up for the investment gap, thereby enabling the project to be built quickly and go into production quickly.

#### **Funding Found for 16 Key Projects in Ningbo**

*90OH0297B Hangzhou ZHEJIANG RIBAO in Chinese*  
2 Jan 90 p 2

[Article by Qiu Mingliang (6726 2494 0342): "Improving the Economic Environment and Restructuring the Economic Order Hastens Construction of Key Projects in Ningbo"]

[Text] Improving the economic environment and restructuring the economic order has produced an astoundingly encouraging new atmosphere for the building of key projects in Ningbo. As of the end of November, 98.9 percent of the total investment plan for the year was fulfilled for 16 projects under construction. Progress has been rapid and unprecedented on four projects including, the second phase of the Beilun Port project, the Beilun Port Power Plant, the Yueshe Airfield, and third phase work on the Zhenhai Electric Power Plant project.

Ningbo is one of the key construction investment areas during the country's Seventh 5-Year Plan. During previous periods, the building of some high energy consumption, low return construction projects caused the "scattering" of limited funds and materials, adversely affecting progress in building some key projects. Following the campaign to improve the economic environment and restructure the economic order, Ningbo took action to support some projects and quash others, using limited funds, materials, and energy where they would do most good, and giving the green light to key projects. The pace of construction on Yueshe Airfield increased greatly, 62 of 72 separate segments being completed. Deliveries on imported navigation equipment have been delayed, but the domestically produced equipment is in the installation and testing phase. As the lunar New Year approaches, conditions will permit test flying. The number 6 generating unit for the third stage of the Zhenhai Electric Power Plant project is in the full installation stage, and it is anticipated that it will be able to generate electricity for the grid during the first quarter of 1990.

#### **Shantou SEZ Performance, Prospects Said Good**

900H0297A Beijing GUOJI SHANGBAO in Chinese  
9 Jan 90 p 1

["Shantou Exhibits Strong Economic Vitality Despite Readjustments"]

[Text] During the past year, the Shantou Special Economic Zone has exhibited strong vitality despite the various difficulties it has confronted, thanks to its having made use of the special zone's advantages, thereby enabling heartening achievements in economic development during 1989.

A comrade in charge in the Shantou Special Economic Zone told the Beijing press media a couple of days ago that the zone's gross industrial output value reached 900 million yuan in 1989, up 61 percent from 1988; the gross output value of exports reached \$300 million, and both the assimilation of foreign capital and government financial income increased appreciably.

The domestic market was not too prosperous during 1989, adversely affecting both production and sales of very many enterprises. Since the economy of the Shantou Special Economic Zone is externally oriented, 80 percent of its products going for export, it was not

greatly affected; instead it saw fairly rapid expansion as a result of a favorable international market situation.

Although gross export volume did not grow greatly in comparison with 1988, very great changes did occur in the make up of export value. In 1987, the special zone's products accounted for 40 percent of the gross value of exports, the remainder coming from products from outside the zone that were exported through the special zone's channels. In 1989, however, products from outside the zone declined tremendously, many products being assembled for export solely by specialized corporations. As a result, the special zone's products as a percentage of the gross value of exports rose to 60 percent. This means that even if the gross value of exports had remained the same as during the previous year, the export of the special zone's products would also have had to increase 50 percent.

Expansion of the Shantou Special Economic Zone depends primarily on the use of foreign capital and internal lateral economic relationships. The zone pays considerable attention to attracting both domestic and foreign traders, making sure to solve at once the real difficulties that foreign traders encounter in investing in enterprises. It is also adept at linking together foreign capital with the special economic zone's investment climate, and the techniques of Shanghai and Beijing. As a result, its achievements during 1989 in assimilating foreign capital and forging internal links were rather outstanding. During the year it signed 230 contracts involving the use of foreign capital, the agreed-upon investment totaling \$165 million, \$115,000 of this amount was foreign capital. This was a 50 and a 54 percent increase respectively over 1988. A total of 115 internal lateral contracts were signed, the agreed investment totaling nearly 300 million yuan, up 95 percent from 1988.

The director of the Shantou Special Economic Zone Administrative Committee, Wu Bo [0702 3134] feels that the achievement scored during 1989 were much better than anticipated. In talking about prospects for 1990, Wu Bo strongly emphasized that the special economic zone would see sustained, steady, and coordinated development. Preliminary plans call for the following: a gross industrial output value reaching 1.3 billion yuan, up 44 percent from 1989; the assimilation of a total of \$120 million of investment by foreign traders, and the need to maintain continued growth in export of the special zone's products at a time when sources of supply from other provinces and cities is declining further. Wu Bo said that the special zone's economic work during 1990 would stress funding that used mostly foreign capital; mostly products that could be exported for sale; and new enterprises that were mostly externally oriented and productive. He also disclosed that preparations were being made to hold a publicity meeting about attracting foreign and internal lateral projects in the Shantou Special Economic Zone during 1990 in an effort to move ahead on trilateral

economic cooperation linking the zone to internal lateral projects, and projects that attract foreign capital.

**Shenzhen Meeting on Economic Zones Planned**  
*HK2201023790 Hong Kong HONGKONG STANDARD in English 22 Jan 90 p 6*

[By Lo Dic]

[Text] A national meeting is to be held in Shenzhen early next month to discuss the future of China's five Special Economic Zones [SEZ] during the present austerity drive.

In particular, the four-day meeting, from February 5-8, is set to work out economic strategies for the zones' development and ways to continue their economic reforms and open door policy, said the Mayor of Shenzhen Mr Li Hao.

Vice-mayor Mr Zhu-Yuening said that concrete issues to be decided included the issuing of a separate currency for the zone and easing of restrictions at its border with Hong Kong so as to make the city a free port.

Both measures have long been requested by the city.

Mr Zhu denied reports that the Shenzhen authorities would ask the forthcoming meeting to upgrade the city into a municipality, directly responsible to Beijing.

Such a move would remove the zone from the administrative control of Guangdong provincial authorities and give it equal status with Beijing, Shanghai and Tianjin.

The national meeting is reportedly to be chaired by Vice-premier Tian Jiyun from Beijing.

Apart from senior leaders from the other zones, Zhuhai, Shantou and Xiamen, participants at the meeting would include officials from the three southern provinces of Guangdong, Fujian and Hainan, which is also the largest zone.

The meeting will also be attended by Beijing officials representing various departments of the central government, including the State Planning Commission, State Commission for Restructuring the Economy, Ministry of Foreign Economic Relations and Trade, Ministry of Finance, General Customs Administration, and the State Council's SEZ Office.

Chinese analysts said the presence of representatives from these departments—the nation's most important economic decision-making bodies—would give the meeting the authority to formulate far-reaching development policies for the zones.

Whether or not the central government would yield to Shenzhen's request to issue its own currency and easing border restrictions is doubtful, said analysts, as these measures might harm the economy of inland provinces.

The economic ministries and state commissions would discuss ways to step up economic reforms and open door policy in the zones, without infringing Beijing's austerity drive, said analysts.

The primary intention of the meeting is to ensure the zones contribute more to the country's economy by expanding exports and attracting foreign investment.

I would also aim to show the world that Beijing is continuing its reform and open door policy, said analysts.

The zones, symbolic products of the reform era in the 1980s, have been caught in an economic dilemma under Beijing's austerity drive, implemented in September 1988.

The prospects for their development has becoming increasingly uncertain following Beijing's aboutface on market-oriented reform.

## LABOR

**Labor Force as Factor in Agricultural Modernization**  
*HK2912065189 Beijing JINGJI RIBAO in Chinese 9 Dec 89 p 2*

[Article by Zheng Chong (6774 6850): "A Brief Discussion of Farm Labor in Our Country"]

[Text]

### I

The population problem is fundamental in the economic and social development of a nation. To a country with a huge population like ours it is an especially outstanding problem. In this connection, the country as a whole has given it important attention. For many years the promotion of birth control and the principles of eugenics have achieved prominent results although, naturally, we still need to perpetuate our efforts in this regard. Unfortunately, it cannot be denied that another basic problem has branched out in the realm of population from the economic and social development of the country, that is, the problem of farm labor force. It has still not attracted sufficient attention from society, and the guidelines and policies relevant to the farm labor problem are still in dire need of perfection.

Modern agriculture is one equipped with modern production tools and scientific technology. In regard to the agricultural applied machineries trade and modern science and technology, soil needs require definite operational dimensions. Ours is a country short of land resources. The national per capita cultivated land is only 1.5 mu, equivalent to only one-third of the world's per capita cultivated land and only one-eighth of that in the United States, Soviet Union and other countries. Hence, objectively speaking, agricultural modernization is still bound by certain restrictive factors. In addition, with a large volume of labor force being stagnated in the land, agricultural modernization is all the more impeded. Since the 3d Plenary Session of the 11th CPC Central Committee, although an estimated 90 million farmers

have been transferred to the secondary and tertiary industries, there is still a labor surplus in agriculture. Naturally, even without the demand for agricultural mechanization, agricultural modernization still needs the input of large amounts of fixed assets investments and with the net income of the peasants being extremely low, they are financially incapable of equipping agriculture. It is true that there are also other factors affecting the process of agricultural modernization, such as the problems of the quality calibre of the peasants and the level of development of the industries producing tools and equipment for agricultural use. Nevertheless, the abundance of an agricultural labor force is an important factor. The process in the formation of the extent and dimensions of our country's agriculture will be determined by the speed at which the agricultural labor force turns to nonagricultural pursuits.

Traditional agriculture depends on the work of manpower and animal power. The labor productivity rate is low and a state of self-sufficiency and semi-self-sufficiency exists which is not conducive to meeting the demands of the development of the national economy and improving the people's livelihood. Since the founding of the PRC, there has been a prolonged shortage in the supply of agricultural products. The essence is an imbalance in the development of industry and agriculture, and in the national economy, a structural contradiction exists in industry while the basic way out for agriculture is the realization of agricultural modernization. At present, the Party and the state are devoting efforts to improvement and rectification, bringing up the problem of readjusting the industrial structure and reinforcing the basic industries. Industry and agriculture are the two great material production departments. The industrial and agricultural structure is the nucleus of the estate of the national economy, while agriculture is the foundation of the national economy. Hence, in the improvement and rectification, strengthening of this foundation of agriculture is a problem deserving priority consideration. Comrade Deng Xiaoping has pointed out: "In our handling of macroeconomic control, agriculture should be put in an adequate position." In the opinion of the writer: "To put agriculture in an adequate position," first of all it is necessary to follow the law of the planned and proportionate development of the national economy; readjust the whole estate structure and ensure the coordinated development of industry and agriculture. However, readjusting the estate structure is not an isolated problem. It is inevitably related to a series of structures of the national economy and needs the making of a corresponding readjustment, of which readjustment of the labor employment structure is included. Therefore, the problem of farm labor should be put on the daily agenda.

## II

Commodity economy is not developed in our country. The vast rural areas are in a state of closure and

semiclosure. Aside from a certain portion of economically relatively developed regions, the traditional concept of the extensive masses of peasants is: "Money from the crops has flowed in for thousands of years," "The multitudes of gold and silver mines outside are hardly comparable to the grass nest at home." This ideology of fond regard for the native land and home village, lacks the commodity concept and is detrimental to the development of the socialist planned commodity economy. Since the economic reform, the people's concept has been renovated and among the peasants, the concept of goods and commodities has begun to sprout. At the same time, due to the working of the law of comparative interests, population flow has appeared. The peasants have begun to leave their native land and home villages, and shift to non-agricultural pursuits. Of them, a large portion of the farm labor force on the spot or locally shifted to the town and township enterprises, a portion turned to the economically developed regions and large or medium-sized cities and towns along the southeast coastal regions; a portion consisting of expert craftsmen flowed to the western nondeveloped regions; and a small portion went abroad, and so on, thus creating a somewhat heterogeneous and complex scene. Concurrently, while the various localities were developing town and township enterprises, certain regions importing and exporting the labor force have gained and accumulated many valuable experiences in respect of organizing the labor force, training and serving labor, building corresponding market towns, as well as building "peasant towns" such as that in Long Gong, Zhejiang Province. At the end of 1988, in the whole country over 90 million peasant labor units had shifted to nonagricultural pursuits, an increase of over 240 percent over the some 28 million in 1978; and they have achieved very pleasant results in this respect. This was one of the triumphant fruits of the reform and opening to the outside world. Nevertheless, it must still be seen that due to the invigoration of the microeconomy while a healthy macroeconomic adjustment and control mechanism has not yet been established, in the course of the transfer of rural labor force to other pursuits, certain erroneous happenings have occurred such as the abnormal development of town and township enterprises; redundant building of factories and plants; too much capital funds and too many good-quality peasants going into nonagricultural pursuits thus affecting farm production; and too many peasants rushing into large- and medium-sized cities and towns, thus disrupting the economy and social order of the localities. Moreover, in the economic improvement and rectification this year, cutting down the scale of capital construction and closing of a large number of town and township enterprises has caused millions of peasant laborers to drift back to the rural villages while in the course of the return, many of the peasants have moved rather blindly and thus affected the security and unity of society, and so on and so forth. All these problems must be handled earnestly. Still, it is extremely clear that these are new problems appearing in the course of our country's economic and social development. Through macroeconomic adjustment and control, and

improvement and rectification, it will be possible to gradually set up a good order for the transfer and shifting of farm labor. The trend of the nonagriculturization of farm labor is inevitable. What we can do is to remain clear-headed, adroitly guide action according to circumstances, avoid too many errors or discrepancies, but by no means should we "give up eating for fear of choking," and disobey the objective laws.

Shifting of farm labor to nonagricultural pursuits is a common problem among developing nations but so far as our country is concerned there are still certain especial aspects. This is because our country has a big population and the absolute volume of our labor force is enormous. At the same time, for a long-time in our country, the dependence on powerful administrative measures and an organizational mechanism have made a large volume of social labor remain on the land. At the moment, the proportion of farm labor out of total social labor is over 60 percent, larger than countries with the same industrial development level. If we make the supposition in our country, that by the end of this century the proportion of the labor force is reduced to around the current world level of 40 percent, and an estimated 100 million peasants will be shifted to nonagricultural pursuits, then a transfer of such an enormous scale will have been unprecedented in history, and the tasks involved enormous. Hence, we must make clear the following two points: On the one hand we must see that our country's farm labor problem is an "old and difficult" one that has accumulated through the years and is by no means one that can be solved easily. We must recognize the difficult and complex nature of the problem and that any attempt to speed up its transfer or solution in excess of the development level of the commodity economy, will inevitably result in failure. On the other hand, it must also be seen that by now, if we still simply adopt measures impeding the process of the transfer of farm labor to nonagricultural pursuits, the industrialization of the rural areas, and the conversion of the rural villages into cities and towns, then not only will the anticipated objective not be achieved, but a serious social and political problem will have evolved. In this regard, we must keep cool-headed.

### III

Several suggestions regarding the farm labor problem:

1. Deepen the understanding and heighten the consciousness of promoting the shifting and transfer of farm labor. We must extensively and intensively study such problems as the active significance of shifting farm labor to nonagricultural pursuits; the negative role of the long term overlooking of the transfer of farm labor, the urgent state of the labor problem today; and how to effect the orderly shifting and transfer of farm labor, so as to attract the important attention of the social circles. Let governments at various levels and various circles of society make joint efforts, adroitly work according to circumstances, and promote the healthy development of

the de-agriculturization of farm labor to ensure the smooth progress of our country's "Four Modernizations."

2. Intensify reform, and improve and strengthen the administrative functional departments taking overall charge of the employment of urban and rural labor. Like the population problem, in regard to the labor problem, in the enforcement of birth control it is necessary to pay high regard to birth control in the rural areas and to consider labor in the cities and labor in the countryside as being of the same entity. Hence, we must make overall planning and effect unified plans. At present in our country, not only is there a surplus of farm labor but also in the urban areas, many people are still awaiting employment. In the state-run enterprises, there are many superfluous employees and the situation of social labor employment is a severe and critical one. It is precisely because of this, that it is urgent for us to make a comprehensive study of the whole problem of social labor employment; make deep-going and far-reaching decisions; formulate guidelines, policies and long-term and medium-term labor employment regulations; gradually put them into effect; set up a macroeconomic adjusting and controlling mechanism; and effectively push the orderly shifting and transfer of farm labor.

3. Improve, rectify and readjust the estate and industrial structure to increase labor employment opportunities. Our country is short in resources and in capital funds; this is a most restrictive factor on labor employment. Nevertheless, seen from the estate and industrial structure, for a long time our country has given priority development to the type of heavy industries requiring the intensified concentration of capital funds. According to a statistical survey made by specialists, the amount of fixed assets investments required for the employment of a single labor unit in the heavy industries is sufficient to provide opportunities for the employment of 2.5 labor units in the light industries, and in the case of the labor-intensive industries and trades such as art craft, embroidery, sewing and knitting, the opportunities offered are good for the employment of eight labor units. In our country, the development level of tertiary industry is not only far lower than the economically developed countries, but also below the level of countries in the same stage of economic development. Therefore, readjustment of the estate and industrial structure requires a combined study with the problem of the labor employment structure, and concurrently with strengthening such basic industries as energy and transportation, attention should be given to developing the labor-intensive type of industries and trades. This is in conformity with the national conditions of our country.

4. Strengthen the leadership, encouragement, and guidance over the healthy development of town and township enterprises. In 1988 the number of employees in town and township enterprises in the whole country was roughly the same as the gross number of staff members and workers in the country's enterprises under the system of ownership by the whole people. This is a road

of socialist rural economic development with Chinese characteristics discovered and trod upon by the peasants themselves, investing and running enterprises and converting themselves into staff members and workers of nonagricultural enterprises. Actual practice has shown that in the rural grassroots level organizations leadership plays the key role in correctly handling the industrial and agricultural relations with the development of the town and township enterprises, not only without weakening agriculture but also supporting agricultural development and forming a benevolent cycle facilitating the reciprocal promotion of industry and agriculture. More recently, central leadership comrades have fully affirmed the role played by town and township enterprises in the development of the national economy; at the same time they have indicated the direction of forward advancement. The various social circles should, based on the spirit of the central authorities, demonstrate a common concern for the growth of the town and township enterprises, help them to overcome their passive factors against the development of the national economy but to display their active factors, and make the needed contributions to the country's "Four Modernizations."

5. Organize, train, and develop scientific and ordinary activities to enhance the peasants' quality. Shifting of farm labor cannot be concretely arranged by the state and far less can it be wholly contracted for by the state. Society's concern must be relied upon, and principally the peasants' own initiative must be depended on to open up. However, at present there are many peasants who could possibly shift to nonagricultural pursuits but who lack the necessary information and expertise, hence the door to well-being is closed to them. The current situation is: In some cases talented people in the locality must be found to organize the economic activities of "each village a trade" to take the lead and help the peasants to effect the transfer to other pursuits; in other cases, state-run enterprises act as the dragon heads and lead the peasantry in the neighborhood to shift to non-agricultural trades; and still in other cases, the form of handicraft trade is employed to teach the peasants to shift over to the handicraft trade, and so on. These are all good forms and must be encouraged to develop. At present, in the various localities in the country, scientific and ordinary organizations and organs engaged in the research on opening up farm labor are taking up the tasks of teaching and popularizing scientific and technical knowledge, enhancing the peasants' calibre and providing scientific, technological and economic information to create the conditions for the peasants to develop the secondary and tertiary industries. This is a form which should be actively promoted.

6. Firmly grasp the opportunities to utilize farm surplus labor to carry out the building of basic facilities. Labor wastage is the greatest wastage in society. At present, a large volume of surplus labor force exists in the rural areas; in the north-eastern and north-western regions, climatic conditions caused the labor force to "remain idle for half the year." Full utilization of farm surplus

labor and surplus labor time can create large amounts of wealth for the state. Recently, the state council adopted a resolution to display the spirit of working and struggling hard to greatly develop farmland capital construction. This is an important policy to augment stamina in farm production. According to the spirit of the state council's decision, from now on it will be possible to gradually spread it to the various sides of the construction of the modernized rural basic facilities such as roads, farm facilities, market places, warehouses and storage, water conservancy works, protective forests, cultural and educational facilities, and so forth. The state needs to put in a small amount of investment in these endeavors, and mainly depends on the peasants' labor accumulations. In recent years, the World Bank has helped us in the undertaking and building of certain projects which have mostly taken the above-mentioned forms and have reaped good results. Naturally, in this regard we must guard against going about it in a whirlwind fashion. Rather, there must be leadership guidance, careful planning, discrimination between things that are urgent and things that are not, and taking due note of our own available forces.

Under the preconditions of firmly insisting on the four cardinal principles and on reform and opening to the outside world, our country's farm labor problem is a matter of concern to the people of the whole country. Following the development of the commodity economy, most assuredly the problem can be gradually eased and solved, and ultimately the historical tasks of the shifting and transferring farm labor can be accomplished.

#### Unemployment Problem Outlined

90OH0271A Beijing RENKOU YANJIU  
[POPULATION RESEARCH] in Chinese  
No 6, 29 Nov 89 pp 27-30

[Article by Chen Zhaofa (7115 2156 4099): "Preliminary Discussion on the Essence of Unemployment in Initial Stage of Socialism"]

[Text] The existence of unemployment in the initial stage of socialism is gradually being acknowledged. What is not clear is the nature of such unemployment and its manifestations. This article is an attempt to explore these issues.

1. Thus far, few academic works have appeared that specifically examine the nature of unemployment in the initial stage of socialism. Equally scarce are clear-cut theories on the nature of such unemployment. But this does not mean that we lack interpretations of the nature of unemployment. Actually when the scholars of many published works on unemployment discuss its causes and methods of tackling it, their own interpretations of the nature of unemployment lurks just beneath the surface.

Generally speaking, there are two interpretations. In the first interpretation, means of production and laborers are considered the two basic elements of productive

forces to be combined or allocated according to a certain ratio in the actual production process. "When there are not enough means of production, part of the labor force will inevitably be unable to find jobs." That is, there will be unemployment. To interpret unemployment this way is to see unemployment as essentially an imbalance in the fund technical structure, as an excess of labor over means of production. In the second interpretation, unemployment in the initial stage of socialism is seen as the excess of labor supply over the demand of fund for labor, just as capitalist unemployment is the excess of the labor supply over the demand of capital for labor. To interpret unemployment this way is to see unemployment as essentially an imbalance in the supply and demand of labor.

These two interpretations betray a misunderstanding of the nature of unemployment in the initial stage of socialism for the following three major reasons.

First, both interpretations reject the fact that unemployment is by nature a production-relations issue. As we all know, Marxist economics analyzes and grapples with unemployment as a problem of production relations. While Marx arrived at this conclusion after analyzing capitalist unemployment, it is of universal applicability. However, the two interpretations above only examine unemployment in the initial stage of socialism under the microscope of productive forces in the commodity economy, treating it merely as a phenomenon of productive forces or the commodity economy and taking great pains to steer clear of production relations as if characterizing unemployment honestly as a problem in production relations will discredit socialist production relations.

Second, these two interpretations reject the opposition in principle between the primary economic players in capitalist and socialist production relations. Marx said, "In bourgeois society, living labor is but a means to increase accumulated labor. In communist society, accumulated labor is but a means to widen, to enrich, and to promote the existence of the laborer. In bourgeois society, therefore, the past dominates the present. In communist society, the present dominates the past."<sup>1</sup> Thus capital plays the dominant economic role in capitalist production relations while the principal economic player in socialist production relations is the union of labor. Marx stressed repeatedly that it was precisely the subordination of labor to capital that gave rise to the supply of labor in excess of what capital required, that is, unemployment. In a socialist society, however, it is labor which controls means of production and fund. In a capitalist society, the needs of capital determine the need for labor. In a socialist society, the needs of labor determine the need for goods and materials and funds. It is true that the form of economy in the initial stage of socialism is not the product economy as envisioned by Marx but a commodity economy, where the supply and demand of labor and where the over-supply of labor exist. It is also true that the regulatory mechanisms of the socialist economy are not the society-wide centralized planned regulation envisioned by Marx. Consequently, it

is still impossible to regulate the production of goods and materials throughout society and bring goods and materials into balance with labor. And even if regulation is possible in principle, in reality we need the necessary objective conditions and material basis. Be that as it may, the basic transformation of the major economic players mentioned above is an objective fact that cannot be denied. Regrettably, by denying that unemployment is a production-relations issue, both interpretations turn a blind eye to the transformation of major economic players and essentially also deny the conversion of the economic players on the unemployment issue.

Third, both interpretations reject the intrinsic inevitability of the regulation of unemployment in a socialist country. It should be recognized that even the governments of capitalist nations regulate unemployment up to a point (admittedly not with the intention of ultimately eliminating it, and admittedly not motivated by a concern for the workers' welfare.) Apart from its concern for the well-being of workers, what is so special about unemployment regulation by a socialist nation or government is that it basically satisfies an inherent need of socialist production relations. In other words, unemployment regulation in socialist nations is not an option, but a necessity. A failure to do so goes against the nature of socialist production relations. Yet, by denying the opposition between major economic players in socialist and capitalist production relations, the two interpretations also deny the uniqueness of unemployment regulation in socialist nations.

2. What then is the nature of unemployment in the initial stage of socialism?

In the commodity economy in the initial stage of socialism, labor becomes a union of labor, but it is not the kind of union of labor forming a single economic player throughout society. Instead, it is the union of labor which assumes a variety of forms and is present at two levels—at the state level and at the production and operational level. Under socialism, every production and operational unit is the principal economic player at the secondary level of the union of labor. Apart from general state interests, it has its own special interests. These economic players pursue profits for the sake of their own interests. There is an essential difference between such behavior and the desperate pursuit of surplus value for capital interests by capitalist enterprises. Still, compared to the state—the primary-level economic player which directly and conscientiously represents state interests, production and operational units, secondary-level economic players which essentially directly represent special and sectoral interests, are more likely to be material-oriented in handling people. Between efficiency and fairness, they tend to give greater weight to their own economic interests while having less regard for social justice. This sets up within socialist production relations a demand to make unemployment a policy and implement such a policy at the microeconomic level with the permission of the state. This is one side of the coin.

On the other hand, the power to make macroeconomic employment policies, including unemployment, rests in the hands of the state. It is also the state that regulates on the macro level microeconomic unemployment. As the direct and conscientious representative of national interests, the state is people-oriented in handling things. When there is a scarcity of goods and materials vis a vis labor, it can and must expand the production of goods and materials through macroeconomic regulation based on the needs of labor in order to bridge the gap between goods and materials, on the one hand, and labor, on the other, and prevent unemployment. In fact, even before unemployment appears, the state should regulate the allocation of labor and goods and materials and the demand for labor (Otherwise temporary unemployment will occur.) Moreover, when state regulation of material production has not yet produced the desired results and there is still a gap between goods and materials and labor, the state also can and must regulate the allocation of labor and materials and the demand for labor. If such regulation is not subject to any restraints, unemployment will not occur. But there are limits to such regulation.

One restraining factor is goods and materials of a certain quantity and quality which serves as the basis and guarantee of regulation. We know from experience that when society produces enough goods and materials to guarantee successful regulation by the state, that is, when social production is enough to meet the consumption needs of all laborers, then state regulation will be successful and there will be no unemployment. On the other hand, if society at the time is not producing enough goods and materials to meet the minimum demand of all workers for survival and normal work, then the state will not be able to regulate even if it wants to. And if society at the time is producing more goods and materials than the minimal demand of all workers for existence and normal work, the state can certainly regulate, but the question under these circumstances will be whether regulation can unleash the initiative of workers for production and is acceptable to them. Regulation that fails to unleash the initiative of workers and is unacceptable will not work. (If the state still press ahead with regulation nonetheless, it will find itself trapped in a vicious circle between hidden unemployment and low productivity, from which there is no easy escape.) Clearly, when we reach a point at which the state cannot regulate the oversupply of labor vis a vis goods and materials, a surplus population will necessarily appear for a while and temporary unemployment will also become unavoidable.

Another restraining factor is the maximum development of productive forces, which is the ultimate goal of regulation. Under socialism, when society does not produce enough goods and materials vis a vis the workers, the shortfall usually does not reach the two absolute scenarios described above but lies within limits. In this case, the state in principle can still regulate to effectively allocate goods and materials and all workers for society as a whole. While this kind of allocation is not optimal in

terms of productivity, it constitutes effective allocation and is acceptable to the workers. (Such allocation does not amount to hidden unemployment. Some people think that as soon as the number of workers exceeds the optimal level and there is not enough work to go around, hidden unemployment ensues. Not so in fact. Actually allocation has its own scale. Only when it exceeds this scale and is unacceptable to workers will it lead to hidden unemployment.) It should be noted, however, that while the state can regulate, it does not mean that it should. Under these circumstances, the state is conditioned by the objective of developing productive forces to the maximum. In addition, it is faced with a value judgment and has to make a value choice: Should it give priority to the principle of fairness and go about regulating in a way that would provide work for those workers outside the optimal allocation ratio, or should it give priority to the principle of efficiency and put surplus workers out of work as appropriate? This is the tangible expression of the dilemma in which the state finds itself between fairness and efficiency in the area of employment. We cannot simplistically assume that only the acceptance of unemployment can promote the development of productive forces. Unemployment can certainly correct the imbalance between labor and materials, bring about their optimal technical allocation, and hence promote the development of productive forces. But unemployment will also cause a sense of loss and uncertainty among workers, especially now that they have become the master under socialism, which will undermine the development of productive forces. Like unemployment, state regulation is a two-edged sword. On the employment issue, therefore, the choice between fairness and efficiency is indeed a difficult one. Nevertheless, there does exist objectively a point where fairness and efficiency can be optimally balanced. The state should take this point as its guide, plan comprehensively, and weigh the pros and cons repeatedly to arrive at a scientific decision. If objective conditions are such that appropriate unemployment is the better alternative and can develop productive forces to the greatest extent, the state should act decisively and allow appropriate unemployment. As soon as the state is conditioned by the objective of developing productive forces optimally and settles on the policy of appropriate unemployment by deciding not to regulate or to cut down on regulation, unemployment will naturally occur.

We can thus see that the imbalance between labor and materials and the imbalance between the supply and demand of labor does not constitute unemployment by itself. Only when socialist production relations cannot correct the imbalance because they are under some constraints is the imbalance converted into unemployment. Unemployment in the initial stage of socialism, therefore, is not the over-supply of labor vis-a-vis goods and materials. Nor is it the excess of labor supply over labor demand. Instead it happens when socialist production relations cannot regulate the over-supply of labor vis a vis goods and materials or the excess of labor supply over labor demand.

3. In the initial stage of socialism unemployment occurs when socialist production relations, conditioned by two factors, cannot regulate the imbalance between labor and goods and materials. As a matter of fact, the population rendered unemployed by the first factor is the absolute surplus population, while the population rendered jobless by the second factor is the relative surplus population.

In the past, just about every comrade interpreted the absolute surplus population as the result when the means of consumption provided by social production cannot satisfy the needs of the entire population. This interpretation is correct. However, practice has proved that its meaning should be broadened. Its old meaning suggests the dependency of the population on means of consumption, but not the dependency of workers on means of production. Actually the latter meaning should be included as well. That the excess of population over both means of production and means of consumption can be summed up as absolute surplus population has long been noted by other comrades.<sup>2</sup> This is scientific. It also reflects the development of practice. The working population is conditioned by the two kinds of goods provided by social production. Essentially it is conditioned by productive forces and not production relations. Thus while there are differences between the two, they have a basic similarity and are scientifically valid. Judging from the development trends in modern times, more and more the working population is conditioned by means of production and not means of consumption.

In the past absolute surplus population referred to a situation where there were not enough goods and materials to maintain workers at a minimum level of existence and normal work. This is the historical theoretical legacy of practice and social development. But in the course of practice and social development, people began to demand more from employment. Instead of survival and normal work, they now pursue personal development and the realization of one's own individuality. In theory, absolute surplus population should also be construed to mean a situation where there are not enough goods and materials acceptable to the workers or where there is more population vis a vis goods and materials acceptable to the workers. Such an interpretation is also scientific because both indicate a shortage of goods and materials vis a vis workers, resulting in an absolute surplus population. Certainly they differ in the criterion of shortage. Thus we can refer to the former as absolute surplus population (I) and the latter as absolute surplus population (II).

Practical analysis shows that because of the development of productive forces in the initial stage of socialism, it is usually absolute surplus population (II) rather than absolute surplus population (I) that appears. In other words, unemployment in the initial stage of socialism usually takes the form of (II).

According to our traditional understanding, relative surplus population is simply capitalist relative surplus population; that is, excess of population vis a vis the need for capital to increase value. This is the result of the nature of capitalism. Such an understanding is correct. However, this is only the way relative surplus population manifests itself under capitalism. It is but one of the forms relative surplus population takes. In the final analysis, relative surplus population ipso facto means surplus population that falls short of the absolute limits. And it is relative precisely because it falls short of the absolute limits. That is why we are never tired of saying that capitalist relative surplus population is a product of the very nature of capitalism; capitalist relative surplus population is surplus population relative to the need of capitalism. It has not reached absolute limits. In this sense, the surplus population produced by the second restraining factor under socialism is also a form of relative surplus population. It occurs when socialist production relations, operating under constraints, fails to regulate. It falls short of the absolute limits but indicates surplus population vis-a-vis what is needed to develop productive forces to the maximum. In a certain sense, therefore, while capitalist relative surplus population results from capitalist production relations extorting surplus value to the maximum, relative surplus population under socialism is a product of the nature of socialist production relations to develop productive forces to the maximum to satisfy the people's material and cultural needs. Perhaps we may refer to the former variant as relative surplus population (I) and the latter, relative surplus population (II). Alternatively we may continue to do what we are accustomed to doing and call the former relative surplus population. The latter can be referred to as quasi relative surplus population, another form assumed by unemployment under socialism.

We may generalize about the nature of unemployment in the initial stage of socialism as follows. It is absolute surplus population (II) which socialist production relations cannot regulate for the time being but for which it may create the conditions necessary for regulation. Or it may be quasi relative surplus population. So unemployment in the initial stage of socialism is not the oversupply of labor vis a vis goods and materials. Nor is it a case of the supply of labor exceeding the demand for labor.

(Author's work unit: Party school under the Xiacheng District CPC Committee, Hangzhou)

#### Footnotes

1. *The Communist Manifesto* in *Selected Works of Marx and Engels*, Vol 1, p 266.
2. Song Tao [1345 3447], *A Course in Political Economy*, revised edition, p 100.

## POPULATION

### Family Planning Urged in Minority Nationality Areas

90OH0280A Beijing ZHONGGUO RENKOU BAO  
in Chinese 22 Dec 89 p 3

[Article by Deng Bihai (6772 1801 3189): "Cursory Discussion of Specific Characteristics of Family Planning in Minority Nationality Areas"]

[Text] When studying family planning in the minority nationality areas, it is certainly justified to always emphasize the specific peculiarities of the various ethnic groups. But what exactly is the specific peculiarity of any minority nationality area in its close relevance to questions of family planning in that area? People's understanding in this respect is not at all uniform, and differing suggestions arise from these different viewpoints.

### A New Recognition of the Specific Characteristics Is Urgent

#### The Idea of "Vast, Sparsely Populated Areas"

China's minority nationalities generally live in remote mountainous areas or borderlands. Throughout history, they have lived as sparse populations in wide spaces of land. However, since liberation, great changes have occurred, following political and economic developments and the pursuit of a family planning policy. In 1984, population density in the autonomous territories of the minority nationalities had reached 47 persons per square km, far above the world's average rate of 32 persons. Even in comparison with the average rate of China proper, their population rate tends to come increasingly closer. In this respect, it has to be noted particularly that the autonomous prefectures and counties of minority nationalities within China proper have long ago already become densely populated areas of limited spatial extent. In 1987, population in the Xiangxi Tujia-Miao autonomous prefecture of Hunan Province had already reached a density of 136 persons per square km, which is even 23 persons more than the average national density.

We must also recognize that a considerable proportion of the land in the minority nationality areas cannot support human life. Marshland, land at high and cold elevations, wilderness, land eternally under snow, as well as glaciers, land difficult to utilize, deserts, etc., occupy 2.47 million square km, or 41 percent of the total area. Population of minority nationalities frequently concentrate along rivers where natural conditions are more favorable, and as a consequence these areas become densely populated.

Some of our comrades disregard the changed situation and unable to specifically analyze the problems involved, while they keep emphasizing the specific characteristic of minority nationality areas as what they call "vast, sparsely populated areas." Consequently, they

propose broadly dilated family planning measures with great elasticity. This is obviously not appropriate.

#### The Idea of "Advantageous Natural Resources"

Minority nationality areas possess the advantage of natural resources. However, these advantages are beset with peculiar characteristics, such as ownership by the whole nation, their state of a potential that still awaits realization, and the need for arduous effort to bring them into play, all peculiarities that would restrict population development in the minority nationality areas.

The natural resources as advantages of the minority nationality areas, including a proportion that belongs to the state, are, up to now, still in the state of potential, not yet actually materialized advantages. The total amount contributed by the autonomous minority nationality regions to the 1985 gross output value of industry and agriculture was merely 80.096 billion yuan, which was only 63 percent of that of a single province of Jiangsu, and in the said sum industrial output value was only 43.4 percent of the total.

#### The Idea of "Ethnic Customs"

In the past, minority nationalities have lived for a long time in an almost stagnant environment. This has imperceptibly influenced their character, and as this has been going on for generations, they have formed many customs and habits different from those of the Han Chinese. However, there is no obvious difference in the matter of human reproduction. The concepts and customs of "preferring sons to daughters" and "many sons ensure prosperity" are equally widespread among Han Chinese as well as among minority nationalities, and these are deep-rooted concepts.

Some of our comrades do not understand that in matters of human reproduction there is little difference between the customs of different ethnic groups, and to sweepingly justify a relaxation of family planning because of peculiar "ethnic customs" is an absolutely untenable proposition.

### Specific Characteristics That Indeed Deserve Serious Attention

#### Retarded Economic Development

Due to historical and geographical reasons, the economic foundation of minority nationality areas has from the start been backward in comparison with Han Chinese areas. After liberation, although certain successes have been achieved in the development of minority nationality areas, development has still been very unsatisfactory. Their rate of development has lagged behind the average national level. From 1949 to 1987, the growth rate of industrial and agricultural output value was nationwide 35.1 times, with an average annual increase of 11.7 percent. For the autonomous minority nationality areas, it was 18.8 times, with an average annual increase of 9.7 percent. It must be particularly noted in this respect that the economic disparity between

minority nationality areas and Han Chinese areas has not been diminishing, as was hoped, but has been, regretfully, still widening and ever increasing. Compared with the situation in the province of Hunan as a whole, the per capita industrial and agricultural output value in the Xiangxi autonomous prefecture was lower by 17 percent in 1952, by 31 percent in 1978, and by 42 percent in 1987.

#### **Rapid Deterioration of the Environment**

Human activity and reproduction is inseparably bound up with the physical environment. Minority nationality areas have always been praised as "beautiful hills and lovely water" and lands of "bird songs and fragrant flowers," and also of an ecology that is basically well-balanced. In these respects, minority nationality areas are superior to areas of Han Chinese. However, after liberation, following the more effective conquest of the forces of nature by man, the minority nationality areas have exploited nature at a growing rate. Some of these exactions have reached the limits, or even exceeded the limits. The ecology could not maintain its equilibrium. The natural environment is destroyed for material regeneration and energy exchanges, with very serious consequences. The prairies have deteriorated due to overgrazing, excess cultivation has caused erosion of the soil, lakes have withered and dried up because of diversion of water for irrigation, mountains and rivers in our forest lands are bereft of their natural resources due to excessive felling, and wild birds and animals have disappeared at an alarming rate as a result of wanton hunting. During the last 10-odd years, this destruction of the ecological equilibrium has not only not been stopped, but on the contrary, driven by the guiding mentality of gaining quick successes and instant benefits, has become more vicious as it continued to be practiced, and the environment is rapidly deteriorating. Minority nationality areas are generally located at the upper reaches of rivers, and their deterioration of the environment has a calamitous impact on the entire country. In the north, the deserts rapidly expand at an annual rate of 1,360 square km, approaching the city of Beijing. In the south, the Changjiang, because of huge and increasing losses of water and erosion of soil is becoming a second dangerous "Huanghe plague."

#### **Too Rapid a Population Increase**

Before liberation, population of China's minority nationality areas essentially stagnated, and in the case of some ethnic groups even gradually declined. After liberation, due to the superiority of the socialist system and the correct minority policy of the party, economic, cultural, and hygienic conditions of the minorities improved, and their numbers rapidly increased. According to the 1982 census, the minority nationality population reached 67.23 million, an increase of 68.4 percent over 1964, and far above the 43.8 percent increase of the Han Chinese population during the same period. At present, there are already 15 out of the 55 ethnic groups with population exceeding 1 million.

Beginning in 1974, the state is pursuing a family planning policy, and the upward trend in the birth rate of the Han Chinese areas has been effectively checked. However, in minority nationality areas—in very distinct contrast—birth rates remain high. Comparing 1987 with 1975, there has been a steep increase of 66.3 percent in the population of the five autonomous regions of Nei Monggol, Tibet, Guangxi, Ningxia, and Xinjiang, almost 50 percentage points higher than the 16.93 percent increase rate in the nation as a whole during the same period.

#### **Little Improvement in Population Quality**

Human reproduction comprises not only quantitative, but also qualitative changes in the population. Population quality comprises many aspects, most importantly the physical, cultural, and ideological quality of the population. In these three aspects of quality, the population of the minority nationality areas has had a certain period of rapid improvement, but thereafter fell back into a state of stagnation. Their present level shows a wide disparity with that of the Han Chinese area, and their infant mortality rate, which reflects the physical quality of the population, is very high. As an effect of the customary marriage of close members of families, it is much more common than in the Han Chinese areas to find in their population persons who are mentally retarded, short of stature, dwarfs, and insane. Their medical and hygienic conditions are poor, the rate of sick is very high, and the educational facilities, reflecting the cultural quality of the population, are quite backward. The general census of 1982 reveals that among every 1,000 members of ethnic minority groups, there are only 3.73 persons with university education, which is 59.8 percent below the national average. Illiterates and semi-illiterates account for 42.54 percent of the population over 12 years of age, which is 11.38 percent higher than for Han Chinese, for whom this figure is 31.16 percent.

Minority nationalities should also advocate family planning, but in view of the great differences between the various groups of minority nationalities, one must start out in devising specific policies from the realities of the particular situation, treat the question in a differentiated way, and never practice "arbitrary uniformity." 1) One must differentiate between China proper and the border regions. 2) One must differentiate between groups of large basic numbers and groups of small basic numbers. 3) One must differentiate between densely populated and sparsely populated areas. 4) One must differentiate between autonomous regions and regions with scattered populations. 5) One must differentiate between urban and rural areas.

To sum up the above statements, I believe each minority nationality area has its specific characteristics, but these characteristics will only show need and importance to take family planning firmly and effectively in hand, and they must not be reasons for relaxing family planning. I firmly believe that only by carrying out effective family planning work in the minority nationality areas will it be

possible to eliminate their disparity with the Han Chinese areas and to achieve the common prosperity of all nationalities.

## TRANSPORTATION

### Heilongjiang Puts Local Railroad Into Operation

*SK1201092690 Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 6 Jan 90*

[Text] At the beginning of the new year, the railroad section between Longzhen town and Heihe city on the Bei-Hei [Beian County-Heihe City] railway was put into operation completely for both passenger and freight transportation.

The eight stations on the newly built road section began to render loading and unloading services for freight to and from everywhere in the country. Two freight trains have been put into round-trip operation on the road section each day.

Temporary joint transport with the national railways on the railroad section between Sunwu county and Longzhen town on the Bei-Hei railway was put into effect on 14 December 1989. Since then the Heihe local railway bureau has mobilized more than 500 cadres, staff members, and workers to work hard on the 117-km railroad section between Sunwu county and Heihe city. They have vigorously engaged in finishing up improvements on the road bed, setting up communication lines, and building facilities for water and power supplies. Since 26 December 1989, this railroad section almost suspended its transport because of their activities.

At present, the delivery of freight, which arrives in the collection and distribution center of Longzhen town, and the importation of freight, which arrives in Heihe port, will be carried out by changing the practice of only relying on highway transport into that of mainly relying on railroad transport. The per ton-km charge of transport on this new road section is 0.15 yuan, lower than that on highways, and a little higher than that on the national railways.

### Yuncheng-Gaotang Section of Highway Opens to Traffic

*SK1701080890 Jinan Shandong Provincial Service in Mandarin 2300 GMT 16 Jan 90*

[Summary] The Yuncheng-Gaotang section of national highway No 308, the first of its kind in China built with a loan from the World Bank, was formally open to traffic on 16 January. Vice Governor Zhang Ruifeng cut the ribbon at the opening ceremony. This newly built section from Yuncheng to Gaotang is 53.5 kilometers long and 10 meters wide, and has more than 600 big and small bridges and culverts, with a designed speed per hour of 80 kilometers. The completion of this section will greatly improve the conditions for transporting Shanxi Province's coal to Shandong. Based on the current situation

of transporting coal through 2,000 trips by trucks per day, this section will save 4 million liters of fuel oil and 6 million yuan of transportation expenses each year.

## AGRICULTURE

### Agriculture Minister Discusses Progress, Goals

*90OH0291A Beijing JINRONG SHIBAO in Chinese 2 Jan 90 p 3*

[Article by He Kang (0149 1660), minister of agriculture, animal husbandry and fisheries: "Seize the Opportunity, Take Effective Measures, and Strive for a Bumper Harvest"]

[Text] In 1989, after several years of stagnation, China's agricultural production, especially grain production, appeared to have turned the corner. The summer grain crop was a record bumper crop, topping 190 billion jin. In the northeast [Liaoning, Jilin, and Heilongjiang] and in Inner Mongolia, because of unseasonably cool weather early on and a long hot and dry spell in late July followed by an early frost, the autumn crop fell short, but both the south and the northwest had good crops. The grain crop for 1989 is expected to top 810 billion jin, making it the second best crop since 1984. Cotton, oil, and sugar productions are expected to parallel last year's. Production of other cash crops, except for tea and ramie, are expected to be higher too. The "Market Basket Project" has produced results. The breeding industry too continues to develop. Meat, egg, dairy, and aquatic products have increased. More, in terms of quantity and variety, vegetable and melon are more accessible in the market compared to last year. All these play a positive role in increasing society's effective supply, stabilizing the market, and curbing the price increases. Amid adjustments, town and township industries have made improvements and have grown; their increase in total output value, taxes, and profits have kept pace with one another. State-run agricultural, animal husbandry, and fishery enterprises and industrial-agricultural enterprises have done well too.

In 1989, we withstood adversities and achieved some success in the agricultural sector. But we are still facing a grim situation. Production of China's main agricultural products has failed to fulfill state plans for five years in a row. Grain and cotton productions are still stagnant. We still have not solved the basic problems that are hampering agricultural development. According to the State Planning Commission's scheme, in 1990, we must increase grain production by 10-15 billion jin, cotton by 5-8 million dan, oil crops by 30 million dan, meat by 500,000 tons, and aquatic products by 300,000 tons, and town and township enterprises must increase their output value by 80 billion yuan. These are formidable tasks. In spite of the many problems, the overall situation in this country is very favorable to agricultural development. Since last fall, large-scale constructions of water conservancy works, not seen for more than a decade, have sprung up across the country. The 5th

Plenary Session of the 13th Party Central Committee has designated striving for the gradual increase in the production of important agricultural products one of the main goals of rectification and improvement and has asked the whole party and the whole country to take part in the endeavor and concentrate efforts to improve the agricultural sector. So long as we seize this great opportunity, make a solid effort, and take effective measures, this year's agricultural development goals can be accomplished. There are several suggested measures:

We should stabilize and improve the multiformed responsibility system spearheaded by the output-related household contract responsibility system and set up a sound socialized agricultural service system. We should continue to implement and fulfill all policies formulated to facilitate agricultural development since the 3d Plenary Session of the 11th Party Central Committee. We should work even harder on improving the output-related household contract responsibility system, follow the principle of "putting stabilizing first and adjustments second," and, in order to facilitate agricultural production, allow qualified localities to practice regional cultivation and centralized planting under separate management, provided that it is out of the peasants' own free will and that the family contract arrangement remains intact, and we should actively and steadily promote larger scale operations. We should improve the service system, enhance its functions, and strive to give play to the existing county and village agricultural technology promotion, seed, fertilizer, crop protection, animal husbandry, veterinarian, farm machinery, management and administration and other departments, and whenever there is a real production need, or when asked by the peasants, these organs should perform the tasks that are beyond the capability of a single family or a single household.

We should make every effort to increase grain and cotton production and end the production stagnation. This would require efforts to be expended in several areas: One, we must increase the seeding area of grain, cotton, and oil crops. By developing winter farming in the south, by increasing the total area of intercropping and interplanting, by developing ratooning rice in the south and adding an early-maturing, late-autumn crop, and by bringing some saline-alkali land under cultivation, we can increase this year's grain seeding area by more than 10 million mu, cotton seeding area by 6 million mu, and oil crops by 6 million mu over 1988. Two, we should improve pre-production, production, and post-production services in the agricultural sector and promote large-scale technology contracting, "collective contracting," and the development of "high-yield grain farms." Three, we should focus on the per-unit yield and, by promoting the widespread use of hybrid rice, hybrid maize, sheet mulching, and formularized cultivation, strive to increase the per-unit yield substantially. Four, we must increase farm capital constructions, agricultural infrastructure, and the construction of commodity grain bases to give agricultural development staying power.

Five, we must pay more attention to agricultural production input and guarantee reasonable supply of chemical fertilizer, pesticide, plastic sheet mulching, farm-use diesel oil and other agricultural means of production and ensure and coordinate their conservation and effective use.

We should steadily develop the breeding industry to enrich the urban and rural residents' "market baskets." We must enhance organizational leadership in the "Market Basket Project," continue to implement various preferential policies that promote the growth of the breeding industry, and continue to optimize the product-mix. While we stabilize the production of live-hogs, we should develop poultry and grass-fed livestock productions vigorously, and while we emphasize breeding, we should also develop the fish-catching, processing, and deep-sea fishing industries. We should work harder on the prevention and cure of epidemic diseases, improve social services, strive to raise the live-hog slaughter rate and aquatics breeding rate. We should conserve and tap potential at the same time, strive to lower the cost of breeding aquatic products, and let the domestic and foreign markets supplement each other.

We should actively guide the healthy development of town and township enterprises during improvement and rectification. According to local superior factors and the needs of the foreign and domestic markets and to the priorities set by the state's industrial policy, we should adjust the industrial structure, support and encourage the processing of agricultural and sideline products and local raw materials, promote the development of energy and raw materials enterprises and enterprises that serve and complement the large urban industries, and give play to the labor-intensive type enterprises, traditional arts and crafts enterprises that export goods to earn foreign exchange, enterprises that produce the urban and rural residents' daily necessities, and the economically efficient enterprises. We should plant our foothold inside enterprises and find ways to speed up their fund turnover rate so as to weather this acute fund shortage period.

We should rely even more on technology to promote rural economic development. By reinforcing the agricultural service system at the primary level, we should continue to rally support for the agricultural, livestock and fisheries bumper harvest plan, the market basket project, the well-fed-and-clothed project, and the town and township enterprise progress plan, and promote the contract system for a variety of technologies, and bring new technologies to the rural areas.

We should improve the work method and work style. This year, the Agricultural Ministry will send a thousand cadres from its office and its directly affiliated units to the front line in the rural areas to participate in regional agricultural development, to promote economic development in the impoverished regions, and to participate in various experimental agricultural projects. Meanwhile, they will conduct detailed studies, review typical

experiences, familiarize themselves with the new situation, new problems, and new experiences, and they will submit timely reports to the higher authorities.

### **Agricultural Problems 'Grim'; Solutions Proposed**

90OH0291B Beijing JINRONG SHIBAO in Chinese  
19 Dec 89 p 3

[Article by reporter Zheng Yan (6774 3601): "China's Agriculture: How To Extricate Ourselves From the Difficult Situation—Synthetical Thoughts on the Agricultural Problems From the Phenomenal Perspective"]

[Text] *Editor's note: "Let agriculture be the foundation"—China, a great agricultural nation with more than 800 million peasants, has once again put this theme at the top of her agenda. After a four-year, 1985-1988, production slump, agriculture, once neglected, has again become a hot topic around the country. Articles discussing agricultural issues can be found in many newspapers. JINRONG SHIBAO's special column, "The Cause of the Illness and the Cure—the Agricultural Problems from the Phenomenal Perspective," which began publication in March of this year, has also received eager response from many circles. What course should China's agriculture follow? We hope the following discussion of different viewpoints can help the readers understand the issue more keenly.*

#### **I. The Whole Nation Is Concerned About the Grim Situation**

*Underestimating the grimness of the agricultural situation, especially, failure to recognize the many serious consequences brought to the national economy by the stalled agricultural development, will cause irreparable damages to the reform. But being overly pessimistic does not help matters either.*

Grain production in China hovered below target for four years after a new phase was ushered in during 1984, when grain production topped 400 billion kg. The supply-demand gap for cotton, oil, sugar and other staple agricultural products also widened. Ration coupons, once abolished, reappeared in the large- and mid-sized cities. These signals tell us that there is no room for optimism in China's agriculture.

Experts suggest that, overall, the agricultural situation is grim because, on the one hand, the total planting area has plummeted: In the 30 years from 1957 to 1988, total planting area has shrunk by an average of 8 million mu a year, which directly affects total output. On the other hand, the per capita grain consumption rate has fallen from 392 kg in 1984 to 359 kg in 1988. At this rate, by the end of the century, it may even be difficult to guarantee food for everyone.

Looking at specific rural conditions: On the one hand, irrigation works have been neglected for years, soil fertility has eroded, and the ecological environment deteriorated. On the other hand, agricultural means of

production are in short supply; their prices are high; as a result, agricultural production cost soars, the peasants generally are discouraged, and agricultural development has lost momentum.

In view of this situation, some people have suggested that China's agriculture has once again fallen on hard times, and if allowed to go on, it can lead to social instability and will undermine the reform. Others, however, feel that the first step of rural reform—the promotion of the output-related family contract responsibility system—has been a huge success and that the state did twice make drastic adjustments in agricultural and sideline product prices, which was responsible for sustaining the seven-year long "unconventional economic growth." However, as the effects of these unusual elements wear off with the passing of time, a more "conventional" growth period is inevitable, and so we should not worry too much about this period of agricultural stagnation. We should, however, be fully aware of the adverse effects these sharp rise and sharp fall can have on the nation's economic development.

#### **II. Learn From the Painful Experience and Find the Cause of the Illness**

*Reduction in agricultural input and the peasants' desire to catch up with the others and their tendency to overspend are directly responsible for slowing the agricultural development, but it is the state's skewed economic policy and the traditionally low agricultural product prices that have finally caused agricultural development to stall.*

Agricultural development's serious lack of staying power is not a problem that has just developed in the last year or two but is the inevitable result of a combination of many factors:

1. **Error in the subjective guiding ideology has tipped the nation's economic balance against agriculture.** After a bumper grain harvest in 1984, for a time, warehouse capacity was "critical," which led many to become overly optimistic, thinking that China's agriculture had finally gained the ability to develop and to follow its own cycles. Urbanization and industrialization began to gain new ground, and the state's macroeconomic policy began to skew. Specifically, in 1987, the combined investment in agriculture, technology, and water conservancy only came to 3.3 percent, a record low, of the total investment by all sectors in the economy; with respect to the state's credit plans, in 1988, fixed asset loans increased 31.9 percent, but agricultural loans only increased 11.6 percent, and as a result, the price of agricultural means of production soared beyond control and the divergence between industrial and agricultural product prices widened.

The direct harms inflicted by the skewed policy culminated in the widespread use of "bad checks" in grain procurements in 1988. This kind of behavior that shows no respect for the peasants' interests greatly dampened the peasants' enthusiasm for planting grain.

**2. Shrunk agricultural input seriously undermines agricultural development's staying power.** Agricultural input includes fund input, material input, labor input, and input of science and technology.

Reduction in fund input is reflected in the decrease in agricultural capital construction investment as a percentage of the government's total expenditure and the decrease in total agricultural investment as a percentage of total national economic investment as well as the decrease in the amount of agricultural loan funds spent on bona fide agricultural infrastructure rather than on the development of secondary and tertiary industries—in particular, fewer long-term loans to assist the peasants in the construction of basic water conservancy works are available.

Reduction in material input is reflected in the blocked agricultural circulation channels, soaring capital goods prices, and widespread "official profiteering," and "individual profiteering," which have seriously dampened the peasants' productive zeal. After capital goods are put under the franchise system, although circulation order has improved and the supply-demand gap has narrowed, because not all capital goods available are the kinds in demand and they are not always available when needed, because of disputes between industry and commerce, and because "monopoly" is still taken to mean "exceptional profit," a shadow still hangs in the minds of the peasants.

Reduction in labor input is reflected in the peasants' loss of interest in intensive and meticulous farming and their short-term management behavior. Because state policies lack a sense of stability and continuity, the peasants are insecure about the use of their land and are unwilling to invest heavily in the land.

Reduction in scientific and technological input is reflected in the extreme difficulty in promoting and applying agriculture science and technologies. Because the peasant households are the basic production units, the scale of operation is very small, which makes it difficult to generate sufficient demand for input. In view of the fact that China has a huge labor force but little capital and land, developing modern agriculture should aim at finding substitutions for land. But this goal eventually obstructs the proper flow of key factors of agricultural production and the application and promotion of science and technology.

**3. Distorted agricultural product prices and the fact that agriculture is comparatively unprofitable discourage the peasants and the local governments from adding agricultural input. This inevitably shifts the agricultural labor force and funds to the nonagricultural sectors.**

**4. As more and more of their income are in monetary form, it enables the peasants to spend more.** As the peasants' income increases, especially as the percentage of cash income increases, they have more money to spend. These peasants have only just escaped poverty and have become fairly well-off, and they are eager to spend

money in order to catch up with the others. Consequently, between accumulation and consumption, they often choose the latter.

**5. The banks' credit management system is unsound, which affects the source and the use of funds.** Because funds have always been provided by the state, Agricultural Bank and the credit cooperatives have developed very little ability to accumulate and develop on their own. Relying only on their own funds to balance supply and demand can never satisfy all the needs of agricultural development. Furthermore, after the reform, the banks now have to deal with tens of thousands of peasant households; they are charged with more loan responsibilities, but there is less guarantee that the loans will ever be repaid. Inefficient fund use in turn affects the banks' fund-supply ability.

### **III. Go Deep Into the Roots and Suit the Medicine to the Illness**

*To revitalize agriculture, policies must be skewed, input must be skewed, and technologies must be skewed. Meanwhile, we must pick up the pace of restructuring of the economic system so as to keep the gap between China and the developed countries from further widening.*

**1. Revitalization of agriculture depends on the correct macroeconomic policies.** Faced with the grim situation in agricultural development, the whole party and the whole nation must adhere diligently to the strategic principle of taking agriculture as the foundation and readjust the improper industrial structure and the profit distribution between town and country and between industry and agriculture, correct the bias in the state's economic policies that favor the cities, and strive to reduce the excess urban and industrial demands to make sure that the economic environment will be healthy and stable for the next several years or even several decades.

**2. Increasing input is what guarantees agricultural production development and boosts agriculture's staying power.** To make sure that the input is used efficiently, we must first establish a fund input restraining mechanism and ensure compliance through a set of laws; second, we must reinforce the financial control mechanism and put the credit funds in where they are needed the most; and third, we must improve the inducement mechanism to attract peasant and collective input, reduce the price differential between industrial and agricultural products, keeping the price increase in capital goods under tight control to protect the peasants' interests.

Input should be a multilevel responsibility. The state's investments should concentrate on water conservancy works, improvement of agricultural infrastructure, and vigorous development of agriculture-related science and technologies and other mid- to long-term reinforcements. The input of land should be left to the peasants and the collectives. The rural collective economy and the masses of peasants should be the major agricultural investors. In view of the dramatic loss of soil fertility in recent years, it is imperative that we guide the peasants'

production and management activities and encourage them to work on soil improvement, fertilize the land, use more organic fertilizers, and plant trees and forests.

**3. Adjusting grain prices cautiously is one of the more workable programs at this time.** Experts and scholars in this field have suggested three possible programs:

**The first suggestion:** We should raise the price of major agricultural products substantially. In view of the unprecedented agricultural development induced by the government's substantial increase of agricultural product prices in 1979, some people have suggested that it is time for another major price adjustment as a way to protect the peasants' comparative interests from being tipped off balance. But this can push the people's tolerance to the limit, causing more financial damage to the state.

**The second suggestion:** We should decontrol the interest rates. Because China has long maintained a low-wage, low-price, low-interest, and low-exchange rate policy, any increase in grain prices necessarily will require an increase in government subsidies, which will raise prices, which in turn will boost product prices. This can cause serious consequences. Thus, at present, if we want to carry out partial reform and end the "four low" situation, decontrolling interest rates may be a good starting point.

**The third suggestion:** We should stabilize the procurement contract price and raise the allocation price substantially while keeping market prices down. This approach has three advantages: One, any loss the peasants may incur in the grain procurement contracts can be partially remedied by the higher allocation price; two, it lightens the financial burden of regions that transfer out grain and increases the local governments' productive zeal; three, it avoids the tremendous pressure decontrolling grain prices completely can have on the state and the citizens.

**4. Opening up new agricultural possibilities is of strategic importance to China's agricultural development.** Of China's 1.49 billion mu of arable land, two-thirds are low-yield farms, and wasteland, undeveloped hillsides, swamps, and uncultivated sandbanks are plentiful also. Thus, we must not just dwell on conventional agriculture; instead, we should emphasize new possibilities. To develop new agricultural possibilities means, first, to transform the low-yield farms and bring up the per-unit yield; second, develop and utilize new productive resources. Compared to conventional agriculture, developmental agriculture connotes profound systemic change and large-scale technological breakthrough. It will be an important agricultural territory to be explored in the future.

**5. We should carry out thorough rural reform and improve the investment environment.** (1) We should start from China's actual conditions and take active steps to perfect the output-related contract system. In qualified localities, and so long as the peasants are willing, a fairly high concentration of land should be encouraged. By joining together scattered pieces of land under a single contract and so create fairly large-scale operations, we can then invest in the individual investment groups. (2) We

should develop new collective economic organizations, give full play to the role of rural cooperative foundations, boost the collectives' economic strength, and share the expenses of agricultural and developmental projects which exceed a single peasant household's operating capacity and operating scope. (3) We must eliminate illiteracy, help the peasants understand the commodity economy better, and guide their correct choice between accumulation and consumption.

**6. We should make use of science and technology and turn potential productive capability to actual productive capability.** Scientific and technological developments will ultimately determine the fate of China's agriculture. China has one-quarter of the world's population, but the per capita arable land is only one-third the world's average, one-eighth of the United States', and one-ninth of the Soviet Union's average. To really solve all our agricultural problems that are critical to the country's rise and fall, the only realistic choice is to develop science and technology vigorously, put more of the results of agricultural science and technology to practical use, and turn our human resource into human capital. Experts point out, in the face of technological advancement, the scarcity of land is not necessarily an impossible "bottleneck." Japan's per capita arable land is 0.6 mu, less than half of China's, but by relying heavily on technologies, Japan is more than self-sufficient in rice.

**7. We need to improve and rectify the economic environment and speed up the restructuring of the economic system.** (1) We should adjust the improper price ratio between industrial and agricultural products and between agricultural and sideline products, perfect the market mechanism, and dredge the circulation channels. (2) We should stop any acts that many destroy the farmland and upset the ecological balance and curb the excessive consumption in the circulation and consumption links. (3) We must control the population increase. (4) We should speed up the restructuring of the urban economic system.

#### IV. The Alarm Has Gone Off and the Siren Lingers

*From now on, rural economic development will be much more complicated than ever before. It will involve more aspects, and we will have to go deeper and farther; the scope will be beyond what agriculture can handle on its own. Being an agricultural nation, agriculture will always be the number one issue before the people of China.*

This year, because many quarters have paid more attention and have worked harder, and thanks to mother nature's cooperation, we are having a bumper grain crop for the first time since the production slump. This success is attributable to the adjustments in the industrial structure and to the special attention paid to agricultural development. On the other hand, the situation also poses a major question to whether we should implement even more skewed policies. The state is facing serious financial problems, especially with the peak debt-redemption period coming up in the next two years. Should we continue to spend huge sums of money

on agriculture, which is relatively unprofitable, or should we spend the limited funds on low-cost, quick-turnover, and high-profit industries and processing industries? We will be faced with a very difficult choice.

In a speech delivered at the recent "National Conference To Exchange Experiences On Comprehensive Agricultural Development," Vice Premier Tian Jiyun [3944 4764 7189] reaffirmed the need for the party's basic rural economic policy to maintain a sense of continuity and stability. Only by stabilizing the basic rural economic policy will the 800 million peasants have peace of mind, and only then can we have economic and social stability. This is an issue that concerns the country as a whole.

We must never assume that, once the people are fed and clothed, our agricultural problems are solved.

We must never assume that, because China's industry has made significant progress, agriculture is no longer fundamental.

China has 1.1 billion people. Their very livelihood depends on agriculture; the country's development also depends on agriculture.

From now on, whether there will be any more rural reform and rural development will depend entirely on whether there is any substantive progress in our urban reform. For many reasons, however, urban reform is much more complicated, much more difficult, than rural reform. Thus, rural development will be a permanent and arduous task for China.

This year, we have a bumper crop, but the old conflicts and old problems are still here.

This year, we have a bumper crop, but the alarm is clanging.

Will China extricate herself from the difficult situation and make great strides? We can only await the answer in the actions we take from now on.

### Problems of Rural Development Examined

HK2811154089 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 10, 20 Oct 89 pp 17-26

[Article by Chen Jiyuan (7115 0679 0337), Deng Yingtao (6772 5391 3221), Yao Gang (1202 6921), and Xu Xiaobo (1776 4562 3134) of the Rural Development Research Institute, Chinese Academy of Social Sciences: "Problems Faced in the Development and Reform of China's Rural Economy and Ideas for Countermeasures—draft revised July 1989"]

### [Text] Two Basic Problems

At present there are two basic problems facing the development and reform of our country's rural economy: First, the stagnation of the planting industries makes it difficult for these industries to meet the demands of overall economic development; second, in a situation of

sustained high-speed growth of nonagricultural industries in the rural areas, economic benefits are gradually declining.

### 1. The predicament of the planting industries and the factors restricting the development of the planting industries

In the four years from 1985 to 1988, the average speed of growth of the annual output value of the planting industries in our country was only 0.9 percent, far lower than the figure of 4.5 percent from 1978 to 1980 and the 8.6 percent from 1981 to 1984.<sup>1</sup> This clearly shows a situation of stagnation and wavering. Since 1985 a great decrease has been seen in the output volumes of grain, cotton, and oil-bearing crops, and they have been unable to rise again to the historical highs experienced previously.

This predicament of our country's planting industries has not been produced by a unitary factor, but is rather the product of the mutual roles of a series of restricting factors.

### A. Subsidies are heavy and it is difficult to continue them

From 1978 to 1984, a quite major improvement in the external economic environment which played a major role in the development of the rural areas was the state policy of reducing purchases and increasing prices. The major restricting factor in the use of this method to stimulate the growth of the planting industries is the burden on state finances. In 1984, the amount of state finances used for subsidies for goods and materials was three times the figure in 1978, and the proportion constituted by subsidies for goods and materials in state finances rose from 8.4 percent in 1978 to 24.6 percent in 1984.<sup>2</sup> The leeway remaining for using the method of subsidies to improve the economic environment for agricultural development is already quite small. The use of low-priced means of production to support the growth of agriculture will in the end also be subject to the above-mentioned restrictions. In brief, the method, used by the state around 1984, of reducing purchases and raising prices in order to stimulate the continued growth of agriculture and the planting industries will be truly difficult to sustain. In particular, with the high speed of growth of nonagricultural industries in the rural areas over the last few years, the opportunity cost of the planting industries has risen dramatically. Thus, in facing this situation, the results of using state financial subsidies to improve the economic environment of agriculture will inevitably fall increasingly short of expectations.

### B. The scale is narrow and problems have appeared

The family output-related contract system has, on the one hand, strengthened the budgetary restrictions within the agricultural production units and changed the stimulatory mechanism, resulting in an obvious increase in internal motivation. On the other hand, the situation of the small-scale, egalitarian planting operations it has produced has meant a decline in the comprehensive use of agricultural production factors. The situation of equal division of dispersed, fragmentary plots of cultivated

land has had an extremely disadvantageous effect on relatively centralized, regionalized planting, on the use and management of field water conservancy facilities, and on the use and propagation of modern and advanced technologies. The decline in the degree of comprehensive use and the use efficiency of these production elements has become a restricting factor in the further raising of the output capacity of our country's cultivated land and labor force.

#### C. Market costs cannot be overlooked

The instability of the market has increased since 1984. Apart from natural reasons, there have been two major economic causes of increased fluctuations in the market. The first is changes in the activities of state commerce and supply and marketing organizations. The second is the situation which has been produced through the combination of a large number of dispersed small-scale agricultural producers and traditional centralized markets.

After 1984, the state began to reform the system of unified supply and purchase of agricultural commodities as well as the circulation system. At the same time, the reform of the entire urban economic structure was also beginning in an overall way. In this general background, changes began to occur in the activities of state-run commerce and supply and marketing organizations. Before the reforms, the basic function of these organizations was the implementation of government policy intentions, and they basically had no profit-making functions. After the reforms, there was a great increase in the profit-making impulse of these organizations. However, the situation of soft budgetary restrictions did not see essential change, and the policy functions they were responsible for remained as before. This situation led to two contradictions: First, the functional clash within the organizations became unprecedentedly acute. That is, the clash between their policy function and their profit-making function was difficult to coordinate. Second, because there had been no basic change in the soft budgetary restrictions and because of the clash with the new function, when the government increased subsidies or when a particular commodity was particularly profitable, they went all out to rush-purchase it. When the state was controlling losses or the situation of a particular commodity allowed no profitmaking, they categorically refused to purchase it. These distorted actions inevitably led to an exacerbation of market fluctuations. After 1978, following the opening of urban and rural market trade, traditional markets began to rapidly revive and develop. However, after such markets developed to a certain level, because they were combined with a large number of dispersed small-scale agricultural producers, the trading costs inevitably grew greatly in the wake of the expansion of the types of trade and the trading radius. This, in turn, restricted any further improvement in the levels and quality of the markets. The combination of the distortion in the activities of state commercial organizations and the increase in the friction of market trade have led to a situation where producers as well as

buyers and sellers very easily overreact to various market signals, and this has produced the fluctuations in the market.

#### D. Structural distortion urgently requires correction

In the last 10 years, the proportion constituted by the output value of crops in the overall output value of agriculture has seen a steady decline. From 76.71 percent in 1978, it fell to 57.03 percent in 1988<sup>3</sup>. In the six years from 1978 to 1984 the proportion constituted by agricultural crops fell 8.4 percentage points, meaning an annual decline of 1.4 percent. As the speed of growth in the planting industries during this period was very high, the readjustment of the industrial structure within agriculture during this six years was quite normal, and this was of benefit to the development of the rural areas in general and the national economy. In the four years from 1985 to 1988, the decline was 11.3 percentage points, meaning an average annual drop of 2.8 percent. During this period the main planted crops first saw a great decline, then picked up and subsequently experienced fluctuations and then stagnation. Thus, during these 4 years, the industrial structural readjustment within agriculture had major abnormal components (estimated at four to five percentage points), and the disadvantageous effects which this had on the rural economy and on national economic development were obvious. This situation was the result of the comprehensive roles of various factors, but a point worth stressing is that, after 1984, in pricing and contracted fixed-purchase policies, a taxation deduction situation which was disadvantageous to the planting industries was formed. That is, the actual taxes borne by the planting industries were far higher than those borne by other parts of agriculture. This was a major cause of the distorted structural readjustment noted above.

#### E. The reduction of investment has had serious results

The total amount of funds for agriculture in state financial expenditure for the Sixth 5-Year Plan was lower than that in the Fifth 5-Year Plan. Of the Fourth, Fifth, and Sixth 5-Year Plans, basic agricultural construction expenditure and agricultural funds, as a proportion of total financial expenditure, were both lowest during the Sixth 5-Year Plan. If we take into consideration the increase in prices and the expansion of the scope of agricultural production, the deterioration in the agricultural investment situation becomes extremely obvious. If we look at agriculture from the four aspects of the expenditure of state finances on agriculture, credit provided to agriculture by banks and credit cooperatives, the funds used by the various organizations in the rural areas (including township and town enterprises) in expanding agricultural reproduction, and the expenditure of the cash surplus of agricultural households, after deduction of livelihood consumption, on agricultural investment, in 1978 the funds which the rural areas could use in expanding reproduction and the expenditure by the state on all projects totalled about 43 billion yuan. Of this, 27.5 billion yuan, or 64 percent of the

total, was used in expanding agricultural production. In 1987, the total amount of funds used in the rural areas was approximately 200 billion yuan. However, the funds used in expanding agricultural reproduction totalled 38 billion yuan, only 19 percent of the total. If price increases are taken into consideration, the conclusion that, in the nine years from 1978 to 1987, overall investment in agriculture not only saw no growth but even saw a slight decline is basically tenable. However, during that period, the scale of agricultural production increased 77 percent.<sup>4</sup> That is to say, as compared to 1978, by 1987 the gap between agricultural production and agricultural investment had seen an obvious expansion. The upper level of this expansion is estimated to be about 70 percent. If the situation whereby agriculture production increases while investment declines is not changed, the desire to achieve a quadrupling of grain production will be but a fine wish.

*2. The factors restricting the development of nonagricultural industries in the rural areas and their interrelationships*

After 10 years of development, around 1984, nonagricultural industries in our country's rural areas entered their golden age. For 10 years the growth in their output value had been maintained at over 20 percent. Since 1984, growth in output value has been maintained at about 30 percent. At present, there are over 19 million township and town enterprises, employing close to 90 million people. This number is close to the number of people employed in state-run enterprises. Although it can be said that the idea had long been entertained and it was inevitable that development would be swift, such a speed of development is difficult to sustain for long. The gradual decline in the results of the two levels of township and town enterprises over the last few years is a portent. It shows that the nonagricultural industries in our country's rural areas face an overall turnaround.

**A. The environment in which they exist is tight everywhere**

First, under the influence of the major macroeconomic policies of improvement of the economic environment, rectification of the economic order, and cutting back of investment, the township and town enterprises, which have become daily more closely linked with the overall national economy, will have great difficulty in avoiding hardship. It is also likely that they will be the first to bear the brunt of the "period of retrenchment." Second, through 10 years of high speed development, apart from in a small number of backward areas, the township and town enterprises in most areas have already achieved some scale. In most areas, proceeding from the self-protection mentality, the trend toward the blockading of raw materials and products has become increasingly serious. This will inevitably mean a harsher external economic environment for nonagricultural industries.

According to a report at the beginning of this year, for various reasons, 81,000 of those township and town

enterprises which are linked to the Agricultural Bank have already been closed down, suspended, or amalgamated or have switched production, while over 30,000 loss-making enterprises are facing closure. Of those tied to credit cooperatives, an even greater number have been closed down. This is an ominous shadow hanging over the township and town enterprises.<sup>5</sup>

**B. The building of systems is not an easy matter**

The organs of political power in our country's townships and towns play a special and key role in motivating local resources into the running of township and town enterprises. It should be recognized that in the primary stage of industrialization of the rural areas, as the capacity of township and town enterprises to bear risks is weak and market regulations are widely imperfect, intervention by township and town administrative organs plays, on an objective level, a role in providing protection to enterprises. In our sample survey, the heads of sample factories held that of 14 departments, those which gave enterprises most help in solving problems, apart from banks (and credit cooperatives), were the township and town administrative organs. That is to say, the township and town administrative organs shouldered, to a certain degree, the operational risks of the enterprises.<sup>6</sup> However, the direct links between the township and town enterprises, community administrative organs, and the level of community welfare have been too tight and extremely unstandardized. Added to this is the fact that the township and town administrative organs generally do not have their own independent, standard tax sources. These factors have combined to produce a situation where assets relationships of township and town enterprises are extremely hazy. This situation has now produced at least three types of problems: First, concern for the welfare of the people employed in the community has resulted in wage costs rising too quickly. Second, low-level, plane-type quantitative expansion has become their growth model. Third, the amount of profits which enterprises retain is too low. Clearly, these three types of diseconomies in wage distribution, retained profit distribution, and assets arrangement will have a deadly effect on the future development of township and town enterprises. Thus, how to sort out the assets relationships of township and town enterprises and deal properly with the income distribution relationships they have with community and township and town administrative organs, so as to make the enterprises responsible for their own profits and losses and ensure that they are guided by the market, thereby gradually standardizing the microeconomic base, are major problems which must be resolved in the future development of township and town enterprises.

**C. Excessive competition results in the deterioration of the market**

Following the swift development of township and town enterprises in all areas of the country, together with the similarity of their commodities, the "squeeze effect subsequent on the rapid growth of similar types of

products" appeared. This has led to the township and town enterprises experiencing daily increasing difficulties in purchasing and sales in the raw materials and products markets.

As the township and town enterprises lack levels and specialization in terms of product structure and organizational form, following the expansion of production, the "squeeze effect" will become stronger. This will inevitably lead to "intraspecific" low-level, excess competition. This and the deterioration of the market situation will constitute the inside and outside of each other and will promote the rise of market costs. For example, in enterprises at the two levels of township and town, the circulating funds used for every 100 yuan of gross income rose from 23 yuan in 1978 to 39 yuan in 1987, an increase of 70 percent, or a growth of six percent a year. This shows an increase in the degree of difficulty of market realization, and also reflects an increase in the growth of market costs.

D. Distribution is one-sided and this is becoming increasingly serious

In the rapid growth of nonagricultural industry in the rural areas, that which has played the predominant role has been the growth in rural manufacturing industry. From 1978 to 1987, the percentage constituted by the gross output value of rural manufacturing industry in the output value of all rural nonagricultural industry rose from 61.9 percent to 69.1 percent. The proportion constituted by the construction industry fell from 21.6 percent to 15.2 percent, that by the transport industry rose from 5.4 percent to seven percent, while the proportion constituted by commerce fell from 11.7 percent to 8.7 percent. In these 9 years, of the total growth in nonagricultural industry in the rural areas, about 70.2 percent came from growth in rural manufacturing industry. The growth which came from construction, transport, and commerce was respectively 14.3 percent, 8.2 percent, and 7.3 percent.<sup>7</sup> Following these changes in the structural proportions, the following conclusion can be drawn: In the swift development of nonagricultural industry in our country's rural areas, the deviation initially formed not only has not been effectively corrected, but has actually become more serious. Thus, this high speed of growth has brought with it a strong characteristic of one-sidedness: The growth in manufacturing industry has been excessively swift, while the development of commerce and service industries has been extremely sluggish.

What is especially worth noting is that 70 to 80 percent of the products of township and town industries have to be sold by the factories themselves. There are very few specialized rural commercial organizations enabling the sales function to become independent. This sort of one-sided development of nonagricultural industry in our country's rural areas is not only an important cause of the escalation of market costs and the decline in results, but also extremely disadvantageous to the further development of this industry.

E. Both dispersal and expansion bring harm

Because of the high degree of dispersal of township and town enterprises and their characteristic of low-level, plane-type quantitative expansion, it is difficult to reorganize, transfer, or move assets. As the economic environment and the market situation become daily more tight, added to which is the structural imbalance, the production conditions of township and town enterprises have tended toward deterioration. From 1978 to 1987, the gross income of the enterprises at the two levels of township and town grew from 41.81 billion yuan to 302.08 billion yuan, an increase of 6.23 times, or an annual growth of 24.6 percent. However, the growth in costs was even higher and, in the same period, there was an annual average growth in costs of 26.6 percent. Of this, expenditure on production costs grew from 15.97 billion yuan in 1978 to 213.62 billion yuan in 1987. This is an increase of 12.33 times, or an annual growth of 33.4 percent. This is close to nine percentage points higher than the growth in income.<sup>8</sup> On the one hand, this shows that the speed of increase in the market prices of input products for township and town enterprises was higher than the speed of increase in the market prices of output products. On the other hand, it also shows that at the same time as the township and town enterprises were expanding at a high speed, they did not realize appropriate economies of scale or appropriate external economies. In this basic situation of dispersed, plane-type growth, the production conditions (such as basic facilities, communications, and so on) of the majority of township and town enterprises will inevitably continue to deteriorate and the external diseconomies will continue to expand.

#### Thoughts on Five Countermeasures

If we sort out and summarize the various restricting factors in the two basic problems noted above, we can sum up the basic factors restricting the further development of our country's rural economy into five types: the rural household; the cooperative organizations which have the rural households as their base; township and town enterprises and their relationships with the group and the community; the various organs of the state; and urban and rural economic interest relationships and urban systems.

##### 1. Rural households and the land system

The basic achievement of the first-step reform of the rural areas was the family output-related contract responsibility system. Practice has shown that there is no reason to dispose of this base we already have. However, the same practice also shows that this base is not solid and is not complete. A basic issue closely related to the stabilizing and improving of this base is the structure of the agricultural land-use system. On this basic question, at present there are two ideas at different extremes. One is that land should be nationalized and the other is that land should be privatized. Centered around these two ideas are all sorts of final plans and transitional concepts.

When talking about the issue of our country's land system, there are three background factors or restrictions which need to be considered: First, our country's per-capita cultivated land resources are very limited. We should place great value on this resource, and in future development do all we can to keep the amount of this cultivated land which is used for other purposes as low as possible. This means that the use of this land can only be unitary—crop planting—so as to satisfy the livelihood demands of the whole nation. Second, the resolution of the problems of the form, degree, and efficiency of the centralization of cultivated land will be determined by the expansion of the employment capacity of our country's rural nonagricultural industries. In future, the employment pressure in China will come from the pressure of the steadily growing surplus labor in the rural areas. At present, the latent surplus labor in agriculture totals 110 million persons.<sup>9</sup> This determines that in the next 20 to 30 years, the degree of centralization of our country's cultivated land will be extremely limited, and the pace of the centralization will be extremely slow. As far as immediate problems are concerned, the most important is how to ensure that cultivated land is not further broken down and dispersed. Third, within the slow process by which cultivated land is centralized, is the problem of the forms and degrees of diversification, specialization, and socialization in the function of guaranteeing the livelihood subsistence of peasants. Seen in terms of the previous two restrictions, the resolution of the problem of livelihood guarantees for peasants who engage in agriculture basically cannot involve reliance on the state. Reliance should rather be placed on the land and the peasants themselves. The resolution of the livelihood guarantees of those peasants who engage in nonagricultural industries in the rural areas of course cannot involve reliance on the state. Their degree of reliance on the land is clearly determined by the stability of the development of nonagricultural industries. Seen in terms of the situation in the last few years, it will not be possible to resolve this problem in a thoroughgoing and ideal way in the next 10 to 20 years.

Now, we will quantify the three above-mentioned restrictions. In 1987, the total planted areas of agricultural crops in our country was 2.17 billion mu. Of this, the area planted to grain crops was 1.67 billion mu, the area planted to economic crops was 310 million mu, and the area planted to other agricultural crops was 190 million mu. Let us suppose that 75 percent of the area planted to grain is used in satisfying demands of self-sufficiency, while the corresponding figures for economic crops and other agricultural crops are 25 percent and 50 percent. Calculated on this basis, about 66 percent of the total area of cultivated land (if calculated on the basis of 1.5 billion mu, this would be equivalent to 1 billion mu. If calculated on the basis of 2 billion mu, it would be equivalent to 1.32 billion mu) was used in 1987 to satisfy the peasant's level of self-sufficiency for their livelihood. At most, this level is just sufficient to keep people fed. Following the growth of the population, the increase in the level of livelihood of the people, and

the reduction in the amount of cultivated land, it is estimated that at the end of the century, the above figure will not only not have fallen, but will probably have even increased to above 70 percent. That is to say, at that time, we will only have to worry about the mode, degree, and efficiency of centralizing in respect of about 30 percent of cultivated land. (A precondition of this conclusion is that the peasants, in producing to satisfy their self-sufficiency requirements, will not experience the problem of insufficient encouragement. At present, this precondition is in accord with the actual situation.)

On the basis of this judgment, we can make the following inferences: First, plans for the privatization of cultivated land should be basically excluded for at least the next 20 to 30 years. The logic is simple. The state will not have the capacity to take on the load of providing relief to the several hundred million latent unemployed population if their unemployment becomes actual. Likewise, the owners of private land will not have the capacity, nor the ability, to resolve this problem. Second, for the same period, the actual benefits of the idea of nationalization of land are limited and operational costs will be extremely high. Thus, this should also be basically excluded. The logic here is also simple. In order to resolve the problem of use-efficiency of 25 to 30 percent of cultivated land, every year we will be faced with the problem of hundreds of millions of peasants competing to lease land. The net effect will certainly be negative. Also, it is not possible just to lease cultivated land to a small number of skilled planters and leave the others without land to lease, leaving the state to provide assistance to those peasants who are unable to lease land. Here, we will not discuss the problem of orientation of social values, and will just consider the political accounting and economic accounting questions. The above two ideas are poor in efficiency on both the economic and political levels, because they cannot satisfy the three restrictions noted above. In fact, on the basis of the above-detailed national situation, if we are to try to increase the use-efficiency of cultivated land on the precondition of not allowing a decline in the standard of living of the peasants, the room for choice is not great. We certainly cannot adopt changes which are too complex or involve too great a movement, because such changes both lack practical effect and involve risks which are difficult to assess and control.

On the basis of the above-noted background situations, we believe that if we are to appropriately resolve the land-use system so as to stabilize and strengthen the family output-related contract system, the program should include the following basic factors.

First, because of the quite low per capita volume of natural resources available, the per-capita scope of existence [sheng cun kong jian 3932 1317 4500 7035] is quite narrow. Thus, we need to have an overall, scientific land-utilization plan (not limited to cultivated land). On the basis of systematic research, we should lay down

detailed and scientific plans for the use of all types of land and the resources on that land, and then fix these plans in law.

Second, as our country's per capita agricultural resources (forests, grasslands, cultivated land, water resources, and mountainous regions are also lower than the world per capita average, there is not much leeway in satisfying the basic demands of existence and development. These resources are basically all renewable resources, but most of them have a low natural productivity. They are what is called "low-level assets." According to the *huo te lin ding* [7202 3676 2651 1353] theory, when the interest rates in the market or market prices are higher than a certain point (that is, when they are higher than the natural productivity of resources), the combination of clearly defined, unrestricted private property rights and a market mechanism which is not subject to intervention will lead to excessive exploitation and irreversible damage to natural resources. This is because destructive exploitation is more profitable than continuous utilization. We call this "private destruction."

Third, in this situation, the ultimate fixing of ownership rights often has little real significance. This is especially so in the making of detailed scientific plans and legal stipulations in respect of usage of various resources. At this time, the systematic arrangement of use rights (including usage modes), commodity earnings rights, and transfer of use rights for the above-mentioned resources will have a major influence on resource protection and use-efficiency. This role can be realized, under the precondition of maintaining the existing property rights divisions, through a land tax system which is concise, flexible, and efficient.

Seen from the current situation, starting with cultivated land and gradually establishing and expanding such a system (including all agricultural resources and even all natural resources) will be of the most immediate significance. Land taxes which have cultivated land as their major target can be basically divided into three types: The first is cultivated land earnings tax. At present, it would be appropriate to set down rational tax rates and a rational tax structure in accordance with the various levels of land. Then, following the growth of nonagricultural industry in rural areas and the strengthening of stability (drawing people away from the land), we could gradually increase the average level of the tax rates, and gradually reduce the level and role of cultivated land livelihood guarantees, thereby speeding the rate at which the peasants leave the land. The combined actions of push and pull will mean that a greater number of peasants will leave the land for good. This will on the one hand allow the optimization of cultivated land resources and raise economies of scale (in principle, we should allow the peasants to transfer contracts for cultivated land on a compensated basis). On the other hand, it will reduce the situation of low-efficiency operation of cultivated land (this is because the level of guarantees will be quite high). The second method is to levy quite high land price taxes and real estate taxes on peasants who build

houses on cultivated land. This will increase the use costs when cultivated land (especially good land) is used for purposes other than agriculture, restrict the switching of cultivated land to nonagricultural purposes, and economize on the use of cultivated land. The third method is that, when it is necessary to switch some cultivated land to nonagricultural purposes, apart from having to do this through fixed legal procedures, a land added-value [*zeng zhi* 1073 2994] tax should be levied. If the land is again transferred, a further land added-value tax should be levied on the price difference.

In a situation where the majority of cultivated land is being used by peasants proceeding from the actual demands of existence, a rational land tax system will be an extremely useful and very flexible tool in our hands. Through reliance on it, we will be able, in an unhurried way, to examine and sum up the situation of the various experimental points in various areas and, through the flexible readjustment allowed by tax rate levels and tax rate structures, achieve a gradual reform of the land system. Thereby, we will make good preparations for gradually standardizing and perfecting the land use system in the future. In this process, basic preconditions which must be considered in our arrangement of the planning system include the maintaining of flexible regulatory capacities and the avoidance of excessive actions which will lead to successive major damage to resources.

## *2. Establishing new cooperative economic organizations based on peasant households*

The basic problem in the situation of mutual reliance between the large number of dispersed, small-scale peasant households and traditional market trade is that, on the one hand, it means that this large number of dispersed small-scale peasant households faces very great external diseconomies in terms of pre-production, post-production, and technology services, and market trade costs are very high, resulting in its being impossible to form a high-quality, specialized market. On the other hand, it means that the traditional markets frequently experience dramatic fluctuations. Thus, this situation cannot accord with the demands of the further development of the commodity economy. At the same time, because of the occurrence of internal functional clashes in state economic organs, it has meant that these organizations are unable to play a mediating role in linking the two sides. A feasible method for breaking down this situation is, using peasant households as the base, to establish new cooperative economic organizations. It is worth stressing that: First, the cooperative economic organizations being spoken of here are different from the mutual-help organizations and the primary cooperatives seen in the mid-1950's in our country. At that time, the cooperative stress was placed on cooperation in agricultural production, while the cooperation we are speaking of lays stress on cooperation in areas outside of agricultural production. Further, because of the very small operational scale of our country's peasant households and the very low level of specialization, the model form

of this basic level of agricultural cooperation organization will be even more comprehensive, so as to weaken the restrictions which the economic capacity demanded by specialization places on cooperation. Second, the standard cooperative economic organizations will not be profit-making corporate bodies. However, a few words of explanation are necessary here. What is meant by non-profitmaking actually refers to the fact that they will not make profits from the members of the organization. Although these organizations will have a board of directors and employees, as far as their members (nonemployees) are concerned, they will be providers of high-quality, cheap services. If profits are accrued, they will be returned to members in accordance with set principles and proportions. However, such organizations will have to be profitmaking in their dealings with the external market and other enterprises, even though their external functions will certainly not be restricted to this (they may, for instance, be involved in stabilizing market prices). Third, through having the large number of dispersed small-scale peasant households organize themselves, the cooperative economic organizations will greatly reduce the number of operators involved in market trade. Thus, the diverse operational goals such as stable prices and supply and rational circulation will be achieved. When there are such organizations as intermediaries between the peasant households and the markets, the small-scale peasant households will see a great increase in external economies. At the same time, there will be a reduction in trading costs, which will promote the development of markets and specialization. Fourth, these cooperative economic organizations which have peasant households as their basis and which are also controlled by peasant households will both avoid exploitation of the small-scale peasant households by middlemen and avoid the low-level of efficiency and behavioral distortions of the state organs with their internal functional clashes. At the same time, the amount it costs the state to regulate the market will be reduced and it will provide a firm basis for indirect economic control. As far as the situation in our country at present is concerned, there is an urgent need to establish four types of new cooperative economic organizations based on peasant households. First, cooperative economic organizations which engage in the processing and sale of agricultural and sideline products and in the purchasing of means of production used in agriculture. Second, cooperative economic organizations which engage in financial activities. While the establishment of such financial organizations will reduce the deposits controlled by state banks, it will also reduce the amount of credit which the state has to supply. The existence and development of this sort of financial organization will be beneficial to the development of our country's financial market and beneficial to the state by indirectly and effectively regulating the funds market through interest rates, reserve rates, and other levers. The state could lay down stipulations in respect of the scope and nature of their deposits and credit through the cooperative and bank laws. The state will only need to regulate and control several major cooperative financial organizations as, then, through

their conductive role, effective regulation and control will be implemented through a much wider sphere. Microregulation will rely on the cooperative financial organizations themselves, and this will indeed greatly improve the macroeconomic regulatory effectiveness of state banks and reduce the costs of regulation and control. This sort of financial organization will on the one hand act as a link between the peasant households and other funds markets and, on the other hand, facilitate funds relationships between the state and peasants households. No matter how they are assessed, their role in the process of commoditization of our country's rural areas cannot be overstated. Third, cooperative economic organizations which engage in mutual help, insurance, and mutual aid for peasant households. These organizations will play a major role in allowing the peasants of our country to gradually free themselves from reliance on the land for livelihood guarantees, in allowing the diversification, specialization and socialization of their activities, in encouraging them to leave the soil, and in more rationally employing guarantee funds. Fourth, various major specialized cooperative organizations, such as forestry, fishery, and animal husbandry cooperative organizations.

### *3. The township and town enterprise system and community interests*

There are two levels of community interests which the future development of township and town enterprises will have the greatest effect on: The first is the overall community welfare and prosperity, while the second is the income of the community's government. Seen from the present situation, a fairly appropriate method for resolving this problem is the establishment of township financial administrations. That is to say, this problem would be best resolved by establishing and perfecting a rural financial administration and a tax system. The central financial administration could, through the taxation law, allow some taxes to be levied and enjoyed by the local government. It could set down certain limits for tax rates and the local government could, within these limits, readjust the level of the tax rates up or down. If the township governments have their own legally stipulated, independent income sources, on the one hand this income can be used in satisfying daily expenditure needs and, on the other hand, it can be used for public construction in the community. In this way, through the reform of the financial administration and of taxation, it will be possible to guarantee the expansion and stability of the income source of the community government. Further, this will standardize the relationships between the community governments and the township and town enterprises, allowing these enterprises to develop healthily in a stable and harmonious environment.

At present, the overall assets relationships of township and town enterprises are extremely confused, meaning that anyone at all can interfere in the township and town enterprises. This is extremely disadvantageous to the further development of these enterprises. In this regard, the first task should be to clarify the assets and liabilities

which have already been created. Although it will not be possible to do this with great precision, a general division should be determined. After this, these assets should be assigned to their due sides through the form of enterprise shares or enterprise debentures. On this basis, in accordance with the changes in assets and liabilities and the profits situation, the enterprise will provide due remuneration to the creditors who hold the above-mentioned debt certificates. Following the development of the system of economic laws and the formulation, promulgation, and implementation of a township and town enterprise law, the various types of township and town enterprises should clarify their own legal position (for example, whether they are private, cooperative, or shareholding township and town enterprises). After this, they should again make standardized arrangements for the assets and liabilities which have already been clearly divided. For instance, cooperative enterprises, which are not permitted to have external shareholders, will be able to clear liabilities through credit, the principal and interest of which will be repaid through installments.

At present, of the products and raw materials produced or purchased by township and town enterprises, about 70-80 percent rely on purchase or sale by the enterprises' own supply and marketing personnel. Such a supply and marketing situation is extremely disadvantageous to reducing trading costs. Seen from the present situation, developing supply and marketing cooperation between township and town enterprises may be an effective avenue for resolving this problem. In the early period, we could start with the supply and marketing funds and personnel of the various township and town enterprises being quite independent, engaged in supply and marketing for the township and town enterprises which supply the funds and the personnel. Later, this form could gradually change into two types of different specialized township and town supply and marketing enterprises. One type would be township and town supply and marketing cooperatives formed by different township and town enterprises in accordance with the principle of cooperation. The form would be similar to the first type of rural cooperative economic organization proposed above. The supply and marketing cooperative would possibly be more suitable for the majority of small-scale township and town enterprises. The other type would be independent township and town supply and marketing enterprises which would, as profit-making corporations (such as shareholding enterprises), specifically engage in commercial business.

At present, the funds supply of township and town enterprises depends, to a great degree, on credit from banks and credit cooperatives. As these financial organs are still within the "big pot" system, internal functional clashes are quite acute and distortions in activities are quite serious. Further, the credit costs of other financial organizations (such as private banks) are very high and their strengths are quite limited. Thus, when a situation of retrenchment is encountered, the township and town enterprises also suffer greatly from the uniform measures

implemented, resulting in their production suffering a pounding and great disturbance. Faced with this situation, developing a financial cooperative business for township and town enterprises will, at least, allow some degree of alleviation of difficulties in this respect. Following the development of agricultural cooperative financing, and the functional division of the state financial organs, in future there may be formed a quite stable, multilevel, plural, financial structure in the rural areas: The state financial organs will specialize in providing long-term funds and will carry out policy guidance functions; rural cooperative financial organizations will mainly provide the medium- and short-term equipment credit for township and town enterprises; the township and town cooperative financial organizations will provide the majority of the fairly stable short-term circulating funds needed by the township and town enterprises; and the other nongovernmental financial organizations in the rural areas will supply the highly fluctuating short-term funds needs.

#### *4. The functional division of state economic organs*

Following the perfection of the peasant household system, the development of agricultural cooperative organizations, rural industry cooperative organizations, and other economic organizations, and the development of various types of markets, the state economic organs which are experiencing intense functional clashes will be able to gradually implement functional division and specialization. Of these, the most important are the following types of organization:

First, state economic organizations with the function of implementing policies. Reliance purely on peasant households, rural cooperatives, township and town enterprises, rural industrial cooperatives, and other nongovernment organizations does not allow the resolution of all problems in rural development. For example, they cannot play a role in the long-term or very-long-term investment required in the making of overall arrangements for the country's territory (including territorial waters and other economic areas). Only the government, with its long-term view and effectiveness, and its functional organs are able to play a key role in such activities. At present, in the relationship between the state economic organs and rural economic development, the most closely connected organ is the Agricultural Bank. It now has three mutually clashing functions: profit-making, policy implementation, and welfare functions. In future, it should transfer away its profit-making and welfare functions, and this one organization should be divided into three. The first will be the Agricultural Bank, which will solely manage long-term investment in agriculture, will implement policy guidance in respect of the use of interest-free, low-interest, and discounting policy measures, and will improve, in an overall way, basic production conditions for agriculture. The second will be a bank for medium-sized and small rural enterprises. This will provide investment for projects involving medium- and long-term equipment transformation and technological renewal of medium-sized and small enterprises. The

third will be a bank for undeveloped areas. This will be oriented toward some of the backward areas, and will, in a focused way, provide support in stages and in groups.

We could also divide the credit cooperatives into three kinds of organizations. The first will merge with the three above-mentioned types of state functional organizations of a policy nature. The second will merge with the agricultural financial organizations (or the township and town enterprise financial cooperative organizations). The third will be independent and will become cooperative financial organizations within the region.

Second, state economic organizations which have profitmaking as their goal. This sort of organization (such as state commerce and supply and marketing organizations) will no longer carry out policy functions. They will only shoulder profitmaking functions and, with the abolition of policy subsidies, will gradually make the transition to the system of real responsibility for their own profits and losses. Their operational principles can take for reference those of the Singapore companies which have the state as the controlling shareholder.

Third, transitional state economic organizations. This sort of organization will have a specific policy function and a partial welfare function. Its main function will be the annual arrangement of the purchase of agricultural and sideline products. Before the nongovernment organizations have developed and before the existing grain and oil subsidies for the urban population and other such problems have been resolved, these organizations will have to continue to exist. However, they should be made independent as quickly as possible and a special voucher system should be used in their operations.

To sum up, we should gradually work toward functional division of the existing state economic organizations, with their many functional clashes, so that functions are made independent and specialized. Different functions should be exercised by different organizations. Under the precondition of maintaining a certain number of profitmaking functional organizations, we should pay attention to strengthening the building and development of functional organizations of an administrative nature.

##### *5. The urban-rural economic interests relationships and the urban structure*

We have already seen that the development of agriculture and nonagricultural industry in the rural areas is subject to the restrictions of urban-rural economic interests relationships and of the existing urban structure. Thus, even if the various problems mentioned above are resolved, if no solution is found to this basic problem, the development of agriculture and nonagricultural industry in the rural areas will not be along a healthy track.

At present, one of the sources of the difficulties of our country's planting industries lies in the system of unified marketing in cities. If this problem is not resolved, the

country will not be able to truly free the planting industries and it will be very difficult for these industries to see normal development. We need to find ways to gradually resolve the situation of people with urban household registration eating cheap grain. To do this, first we should find ways to stop the rural population gaining nonrural registration. In principle, except in very special situations, (a small quota could be directly controlled by the State Council) we should no longer allow the arranging of such changeovers after a certain date. If we can do this, it will be equivalent to abolishing the mechanical growth in the population eating cheap grain and oil. (This is the major component in the present increase in the urban population.) In this way, it will be possible to snatch the firewood from under the pot (this is because the urban areas have instituted the one-child policy and thus, seen from the long-term, the natural growth in the original urban population is extremely slow and, after a certain time, it will even begin to decline). At the same time, we should establish a new urban population system, whereby even though persons are urban dwellers, they will not enjoy subsidies. In this way, there will be blockage on one side and relaxation on the other, and these aspects will promote each other. Second, on the basis that the population which eats cheap grain will not be increasing, we will be able to absorb the subsidies at a leisurely pace. First, (within fixed limits) we can make the transition to not subsidizing quality grain and oil. Then, we can switch to reducing the sized of rationed quotas. Finally, we will be able to move to where only the poor members of the urban population will receive rationed relief. In this way, the original subsidies will gradually be almost completely absorbed. Third, in the various stages of transition, it will be possible to utilize the method of using land tax guarantee methods to provide subsidies for excess financial burdens produced by increases in the market prices of grain and oil. When necessary, temporary grain, cotton, and oil taxes in kind might be introduced. However, the peasants should be allowed to pay their taxes in money, at that year's current prices, so as to eliminate the effects which tax payment in kind will have on resource deployment efficiency. In this way, the final restricting element causing the difficulties for these planting industries will be eliminated. As this process can be continuously implemented in small steps, and the stopping of the rural population transferring to nonrural registration will not have any effect on the immediate interests of the existing urban population, it is considered that this measure will not induce any major social disturbance.

The current practice of isolating the urban areas from the rural areas has not only produced the difficulties of the planting industries, but has also meant that the township and town enterprises face major external diseconomies. (This is closely related to the dispersed deployment produced by insufficient urbanization.) Thus, if we want to have the township and town enterprises throw off the difficulties of external diseconomies, we need to block the old road by which the rural population has been

transferring to nonrural registration. At the same time, we need to open a new road which allows the peasants and the township and town enterprises to enter the cities. This method of blocking one side while relaxing another is a two-sided method of establishing a new urban system.

Seen from the actual situation at present, if we are to speed the building of a new urban system, we need to do well in the following work: First, we will need a strong urban construction planning contingent. They will need to understand modern science and technology, and understand the experience and lessons of urban development throughout the world and in our country. They will also need a thoroughgoing and overall insight into and understanding of the characteristics and restrictions of our country's resources. Second, we should start from the medium-sized and small cities and the towns, select areas which will not occupy much cultivated land and which have sufficient water resources, take these as bases for expansion, and engage in overall planning and design of the long-term development of the new cities. Third, relying on the various nongovernmental financial organizations mentioned above, and with the assistance of the policy-nature functional state organs, we should take local government as the core and use the land tax system to raise the large amount of funds needed in the new urban construction. Fourth, in the light of the scale and facilities of the small industrial areas, we should combine these with the establishment of the new urban systems and new urban construction, so as to gradually centralize the township and town enterprises in the new cities. Thereby it will be possible to completely change the characteristics of township and town enterprises of being dispersed and of suffering external diseconomies.

In fact, in this respect, the peasants have already taken the first step. The construction of Longquan City, the peasant's city in Wenzhou, Zhejiang, involved over 200 million yuan in funds, but the state's investment only totaled five percent. These people can be said to be new urban dwellers in name and in fact. If by the end of the century we have over 300 million such new urban dwellers, then the overall "big pot" system in urban areas will have been reduced by over half (even if the original urban "big pot" system model has not changed). Basically, it is very likely that we will have to rely on a gradual increase in these new urban dwellers until finally they constitute an overwhelming majority and thereby the original urban "big pot" system will finally be ended.

Seen from the five above-mentioned countermeasures, the degree of complexity of the future development and change of the rural economy will increase greatly. Seen from the situation over the last few years, and likely future trends, our country's rural economic development and change has entered a relatively long period of difficulty. There are four reasons for this: 1) The policies and measures necessary for resolving the problems in the future development of China's rural areas have already greatly exceeded the areas in which we have personal experience. 2) We need to make use of the various

beneficial experiences and lessons from around the world and combine these with the specific practice of our country. However, this combination will require repeated testing and comparison and even involve some setbacks and mistakes. 3) Identifying areas for organizational and structural renewal, achieving the renewal, and propagating the experiences requires a very long time. Only in this way will there be long-term and overall significance and a sustained and rich effect. 4) It will be very difficult to decide how we are to handle and absorb the problems left over by history so that on the one hand, in future development there will not be shocks difficult for people to bear and, on the other, we will be able to gradually reduce the burdens of progress and reduce the accumulated influence of mistakes.

Based on this assessment, we believe that doing well in preparation for "sustained battle" so as to gradually turn little victories into major victories, and avoiding a mentality which is over-anxious for results and which hopes for dramatic changes are the key factors. Without a sober mind, an overall view, long-term calculations, a serious attitude, and tenacity in work, there will be absolutely no way to handle well the complex questions in the future. Just having fine hopes will be to no avail. Further, if such hopes are combined with hot-headed thinking, a narrow view, short-term calculations, impulsive attitudes, and mediocre work, it will most likely lead to disastrous results.

#### Footnotes

1. Based on materials taken from: State Statistical Bureau, *China Statistical Summary (1988)*, China Statistical Publishing House, p 28; State Statistical Bureau, *China Statistical Summary (1989)*, China Statistical Publishing House, p 23; State Statistical Bureau, *A Brilliant 35 Years (1949-84)*, China Statistical Publishing House, p 51. Calculated in accordance with the method provided in Wang Jianzhen [3769 0256 4176]: *Problems of Economic Index Methodology*, Rural Books Publishing House, 1986, p 287.
2. Comprehensive Planning Office of the PRC Ministry of Finance: *China's Financial Statistics (1950-1985)*, China Finance and Economics Publishing House, 1987, p 16 and p 100.
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9. National Conditions Analysis and Research Group of the Chinese Academy of Sciences: *Existence and Development—Systematic Research on Several Questions (Population, Resources, Environment, Grain) in the Long-Term Development of China's Rural Areas*, 15 January 1989, p 12.

#### **Bank Official Comments on Grain Procurement Funding**

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26 Dec 89 p 4

[Article by Yang Zhengwen (2799 2973 2429): "The 'IOU' Situation Has To Be Solved Through System Reform"]

[Text] The problem of a supply of funds for the procurement of agricultural by-products has perplexed party, government, and financial departments at all levels since 1985. Despite Herculean efforts and the adoption of various methods, one problem after another has cropped up. It has not been possible to find a fundamental solution to this problem. What is to be done? The Hubei Provincial Bank of Agriculture made a special investigation and study of this matter, and recently the correspondent interviewed Hubei Provincial Bank of Agriculture director, He Shaozhi [0149 4801 2535] about it. He believes that fundamental solution to the problem of funds for the procurement of agricultural by-products, no further "IOU's" or "IOU's" under another name being issued to the peasants, requires that four system relationships be straightened out as follows:

#### ***Straightening Out the Relationship Between the Central Bank and Specialized Banks***

Up until 1984, the procurement of agricultural by-products was done through the issuance of Bank of Agriculture credit on the basis of plans from higher authority, the People's Bank supplying ample funds. After the setting of base figures in 1985, the central bank no longer included funds for specialized banks, nor did it include the issuance of funds for the procurement of agricultural by-products in its currency issuance plans. Most of the funds for the purchase of agricultural by-products came from increases in savings in the Bank of

Agriculture. From 1984 through 1988, the value of agricultural by-products purchased for storage in Hubei Province increased 2.922 billion yuan, and savings increased by 3.991 billion yuan during the same period. After subtracting reserve funds, and various kinds of indebtedness, only 2.908 billion yuan remained. If all of it were used for procurement, there would still be an 80 million yuan shortfall. Furthermore, were all the savings used for procurement, none would be left to support agricultural production, to develop agriculture, or for township and town enterprises and business in general. Agricultural by-products are goods, and as important products having a bearing on the national economy and the people's livelihood, they should be included in the annual currency issuance plans. A look at the direction of tilt in national currency and credit policies shows that as of the end of 1984, the Hubei Provincial People's Bank had re-extended 12.69 billion yuan in credit, 5.47 billion yuan, or 43.1 percent of it to the Bank of Agriculture. In 1988, the central bank re-extended credit of 19.33 billion yuan, 7.42 billion yuan or 33.39 percent of it to the Bank of agriculture, a 4.7 percentage point decline. Conversely, the percentage of re-extension of credit to cities increased from 56.9 percent in 1984 to 61.61 percent in 1988. As a result of the tilt toward the cities of currency and credit policies, the Bank of Agriculture lacked a stable source of funds to support procurement, so it had no choice but to "kill the goose that lay the golden eggs," sequestering the funds of other beneficial enterprises in order to insure procurement. During the spring of 1989, Hubei provided 200 million yuan less in agricultural credit than in the previous year because of the slack sales of agricultural by-products, and inability to remove much currency from circulation. Therefore, the central bank must include these funds in its currency issuance plans, solving this problem through credit policy.

#### ***Straightening Out Relationships Among Specialized Banks***

The grain control system today has three features as follows: a double track system, a dual financial system, and accounts in different specialized banks. These features provide grain enterprises opportunities for diverting and making use of funds intended for the procurement of agricultural by-products. As a result of the double track system, banks cannot effectively supervise enterprises' activities. Under the dual financial system in which revenues and expenditures are divided between the central and local governments, grain departments can easily set the local government against the central government. In addition, when they can maintain accounts in different specialized banks, control over grain funds becomes more difficult. This leads to industry putting the squeeze on businesses; marketing areas putting the squeeze on producing areas; and negotiated prices exerting pressures on parity prices. Such system abuses have become pronounced recently. From an overall standpoint, what is required from top to bottom is that the Bank of Agriculture alone should be in control of grain from purchase to sale. This would solve

the problems of making use of funds intended for final settlements, and arguing back and forth. Danyang City in Hubei instituted sole control by the Bank of Agriculture, using 1.48 million yuan for final settlement in 1988. Meanwhile, in neighboring Jijiang County, where both the Industrial and Commercial Bank and the Bank of Agriculture were in charge, the funds used for final settlements amounted to 17.8 million yuan. Yet another advantage of the Bank of Agriculture alone being in charge lies in controlling and supervising enterprises.

#### *Straightening Out Relationships Between Specialized Banks and Departments Concerned*

The first relationship is the relationship with financial departments. At the end of 1984, local government treasuries in Hubei Province had to pay 210 million yuan for grain losses. By 1988, the sum increased to 490 million yuan, all of which was borne by the Bank of Agriculture. However, the local treasuries used this money to expand the scale of capital construction. Therefore, local treasuries should handle matters strictly according to national policy provisions, subsidizing grain to the extent that it should be subsidized without falling behind in payments. The second relationship is the one with grain departments. Grain departments have rather serious problems with the Bank of Agriculture about credit. One example is in Yangxin County, where 20.39 million yuan credit has been allocated to buy grain, but 10.15 million has been siphoned off for one reason or another. Situations similar to the one in Yangxin County are fairly common in Hubei. Therefore, specialized banks cannot take charge of the supply of funds for grain departments; they can only take the amounts set by policies. Grain departments should improve management, improve accounting, and promote business. They should not disregard economic law or be unconcerned about economic returns, just because of the special requirements of this grain commodity, reclining on the banks while eating out of the country's "large common pot."

#### *Straightening Out Specialized Banks' Internal Relationships*

Credit institutions should institute a designated personnel system for grain; financial institutions should coordinate and mediate among circulation channels; planning institutions should improve forecasting to do a good job of drawing up plans and allocating funds in a flexible manner. All units should coordinate with each other; they should use these funds for control of each of the links in procurement and sales; and they should make use of the Bank of Agriculture's overall functions.

#### **Farm Product Marketing System Examined**

90OH0285D Beijing JINGJI CANKAO in Chinese  
20 Dec 89 p 1

[Article by correspondent Li Wenru (2621 2429 5423): "A Top Priority Task Is the Invigoration of Circulation"]

[Text] The slack sales of some agricultural by-products not only worry the peasants, but departments concerned are also levels of government are filled with anxiety. They wrack their brains to find a way out. Surely, unless some effective means can be found, a recurrence of the selling difficulties will be difficult to avoid in the future, and the peasants cannot withstand another blow of this kind.

The experts concerned point out that production, circulation, and consumption are all indispensable links in commodity production. They are mutually promoting and mutually restricting. Whenever a problem occurs in one link, development of the whole may be hurt. Therefore, a solution to the difficulty in selling agricultural by-products requires, first of all, a change in perceptions that emphasize production but slight commodity circulation. Whenever the national authorities, local authorities, or those in charge of departments think about the development of agriculture, they should treat production and circulation as an integrated whole. For example, many places today use local resources in the active development of agriculture, but are marketing, transportation, storage, processing, and other indispensable requirements for circulation in being? If they wait until the products have been produced and cannot be sold before re-thinking the problem of selling difficulties, the enthusiasm for production of the broad masses of peasants is bound to be hurt.

Once restrictions were removed on purchases and sales of agricultural by-products, state plans no longer took them into account. Relations between producers and marketers were governed largely by contracts and agreements. Reportedly, however, quite a few of the supply and marketing agreements signed nowadays by marketing or processing enterprises with the peasants are rather high-handed. For example, in 1989 some enterprises violated agreements simply because of difficulties with funds turnover and no market for products. In places where agricultural by-products are processed for export, in particular, foreign trade units, or processing enterprises frequently do not honor contracts. They push off on the peasants losses resulting from changes in the international market. Therefore, the meshing of production and marketing requires, first of all, increasing the legal seriousness of supply and marketing contracts. Once a contract or an agreement has been signed, responsibilities, rights, and benefits are clear, no matter what changes may occur in markets, and they cannot be scrapped at will. Thus, the meshing of production and marketing will be fairly stable, avoiding large scale ups and downs in production. At the same time, a certain amount of internal pressure will be exerted on both producers and marketers impelling them to use all available means to do a good job of production and doing business.

Quite a few comprehensive analyses show difficulties in selling agricultural by-products, and a substantial number of the existing problems are in the circulation realm. Urgent actions must be taken to solve them. One example is the funds shortage. According to financial institutions, a shortage of funds for procurement is a

fact; however, some of the limited amounts of funds that the banking system works to raise are diverted to other purposes once they are released to procurement units. A Chinese Bank of Agriculture survey for the first half of the year shows several billion yuan of procurement funds as having been diverted to other purposes in the grain system. After working hard all year, there is no one who wants to buy the things that the peasants have harvested. Some units or enterprises use limited funds to build dormitories for staff members and workers, or they make loans to individuals, or they even use them to make up for losses in dealings of various kinds. The main reason for the arbitrary sequestering and diversion of procurement funds lies in lack of strict controls, with the result that procurement units do not abide by rules and regulations, do not carry out orders, and do not halt when forbidden. Therefore, in solving the shortage of funds for procurement, increasing the availability of credit is important, of course, but even more important is the adoption of legal and administrative methods to plug the "black holes" of sequestering and diverting funds to insure that procurement funds reach their intended recipients at once. Yet another problem in urgent need of solution in the agricultural by-products circulation field is the clogged procurement and circulation channels. Commercial departments report that before restrictions were removed on the purchase and sale of agricultural by-products, supply and marketing cooperatives monopolized all transactions. Once restrictions were removed during the past several years, many units began to operate, prices were hiked, panic buying occurred, and products were bought for the purpose of selling them at a profit. The 1989 national policy of improving the economic environment and restructuring the economic order, together with the soft market, have brought about a great reduction in the number of channels for doing business in agricultural by-products, but for various reasons having to do with funds, equipment, and contracting, supply and marketing cooperatives are unable to make use of the role of the main channels of circulation. In the case of fruit, for example, fruit company sales during 1989 amounted to only between 20 and 30 percent of the amount of social commodities.

Experts in the Ministry of Commerce believe that in a situation of steady rise in commodity rates for agricultural by-products, the role of state-owned commercial channels has to be emphasized in order to avoid great ups and downs in production. This does not mean that it is necessary to return to the former situation of stifling centralized control, but rather to take advantage of the wide area of operations and the numerous network outlet points that state-owned businesses provide. They would play a "reservoir" role in the flow of agricultural by-products, regulating supply during slack and busy seasons in markets. They would also build a bridge between production and marketing to bring production gradually in line with market changes for the formation of a benign cycle of production, circulation, and consumption. In this regard, the methods used by the

Shanghai Municipal Fruit Company seem to offer valuable guidance. This company took the organizational lead, setting up more than 10 wholesale fruit markets in the city's suburban counties to form a production, circulation, and consumption network that was oriented toward the whole country and radiated to every province and city far and near. It attracted more than 3,500 customers who came to the markets to trade, not only state-owned and collective enterprises, but also individual households. During 1988, it handled nearly 500,000 tons of fruit.

### Harvest Losses Caused by Poor Marketing

90OH0285C Beijing JINGJI CANKAO in Chinese  
19 Dec 89 p 1

[Article by correspondent Li Wenru (2621 2429 5423): "Problems Following the Bumper Harvest—A Penetrating Look at Difficulties in Selling Agricultural By-Products"]

[Text] The situation in agricultural production was good in 1989. Most places not only harvested bumper cotton and oil-bearing crop harvests, but outputs of cash crops such as fruits, vegetables, tobacco, and mushroom, as well as of aquatic products and hogs also increased. However, not everything that the bumper harvest brought the peasants was joyous.

In Zhejiang, Sichuan, Hunan, and Guangxi Provinces, it was difficult to find a market for nearly 1 million tons of fresh fruit. In Jiangsu, Zhejiang, Sichuan, and Fujian Provinces, mushroom exports were less than half the 1988 figure. Prices for the remainder fell 60 percent when sold inside the country, and there were few buyers. In quite a few places, mainstay products in escaping from poverty to become prosperous such as chili peppers, tree fungus, tobacco, and aquatic products were hard to get rid of. In some bumper grain harvest areas, peasants were unable to sell their excess grain.

This was a year of normal increase in agricultural by-product output in which demand was greater than supply in overall market terms, so why did difficulties in selling occur in some places? In order to answer this question, the correspondent visited financial, agricultural, and commercial departments to gather the views of all parties. They believed that sales of a fairly large number of agricultural by-products were slack in 1989 not just because of the overall effect of a national tightening of the money supply, and soft markets, but also because of reform of the links in commodity circulation resulting in no attendant development of production, business departments not concerning themselves with production, and production units not concerning themselves with business. This was one important factor causing a disjunction between production and sales.

During the spring of 1989, some counties in Sichuan Province conducted a campaign throughout a certain county to encourage the peasants to grow Huangbei [7806 5154] wood fungus, selecting some townships as

demonstration bases. They organized everyone to visit these bases to benefit from experience. This very quickly set off an upsurge in the growing of wood fungus with the result that the entire county planted more than 9 million bags of wood fungus, producing more than 1.2 million kilograms of wood fungus. However, since there was no sales promotion unit to promote their sale, the wood fungus became a drug on the market. More than 1 million kilograms of wood fungus could not be sold. The county government was at the end of its tether, and the peasants' complaints filled the land.

Some experts concerned said that this phenomenon reflect problem in agricultural production during recent years that cannot be ignored as follows: For a long time, China's agricultural by-products markets were largely buyers' markets. Frequently even before something was harvested, buyers knocked down doors, or even "sheep wool wars," "silkworm cocoon wars," and "tobacco wars," etc. constantly broke out. Since there was no problem selling anything produced, the government and departments in charge in some places frequently thought a great deal about how to expand production, but they did little research on how to mesh production and marketing, or how products could enter the commodity circulation realm smoothly to realize their value as commodities.

Take fruit production for example. In recent years, quite a few places, particularly mountain regions, regarded the development of fruit production as a shortcut for escaping from poverty and becoming prosperous, so they rapidly expanded the orchard area. In 1988, more than 70 million mu throughout the country were devoted to the growing of fruit trees, more than double the 1984 figure. In 1989 the growing area increased again to 85 million mu. During the first three years of the Seventh 5-Year Plan, the state, local governments and peasants invested a total of 130 million yuan in the building of 65 premium fruit production bases. According to the estimates of agricultural departments, gross output of fruit for the country as a whole in 1989 may reach 19.97 million tons, nearly 20 percent more than in 1988.

The expansion of production was bound to require a commensurate expansion of commodity circulation channels. However, what has been the state of fruit purchases and sales in recent years? A unit responsible for fruit in the Ministry of Commerce said that since fruit handled by fruit companies in the supply and marketing cooperative system in fruit growing areas amounted to only approximately 30 percent of the total commodity output, the remainder had to be sold by the producers themselves. Under the previous market conditions of supply being unable to meet demand, prospective buyers beat a path to people's doors, but in today's changeable markets, there is at once both a bumper harvest of fruit and an increase in commodity supply, and a soft consumer market in which fruit selling businesses do not dare, or do not want to handle fruit. The result is that peasants have large quantities of fresh fruit that is difficult to get rid of. Furthermore, processing,

preservation, and storage techniques have not kept pace. Unless handled just right, peasants can end up having a lot of rotten fruit on their hands, the increased output generating no increase in income.

Reportedly, other staple agricultural by-products faced similar problems after the removal of restrictions on purchases and sales. The large number of agricultural by-product production bases that the state and local governments invested in and built during the past few years will enter the stage of consistently increasing output within the next few years. In addition, the promotion to application of scientific and technical achievements, and their entry into the circulation realm will mean a gradual increase in agricultural by-products. Difficulties in selling agricultural by-products will become more pronounced.

In reform of the agricultural products operating system during the past several years, we have repeatedly emphasized the need for production, supply, and marketing as parts of a single whole. Undeniably, some places or units have achieved results from their explorations in this regard; however, in a fundamental sense, some problems have yet to be solved. As a result, a disjunction between production and sales frequently exists. When products are in short supply, all sorts of wars become frequent; when output increases slightly, screams about difficult selling can be heard everywhere. The reasons stem from a disjunction between production and marketing.

#### **Official Comments on Farm Machinery Industry**

90OH0319A Beijing ZHONGGUO NONGJIHUA BAO  
[CHINESE RURAL MECHANIZATION NEWS]  
in Chinese 30 Dec 89 p 1

[Interview with Li Gengxin (2621 1649 2450) by reporter Liu Kai (3177 6946): "The Farm Machinery Industry Should Concentrate on Improving the Quality of Productive Factors"]

[Text] While the whole nation from the leadership to the masses are working together to strengthen the agricultural foundation, how do supervising departments appraise the situation of the farm machinery industry which is an important component of the agricultural industry? What kind of new plans do they have for next year's work? Li Gengxin, deputy director of the Engineering and Farm Machinery Department under the Ministry of Machine-building and Electronics, recently answered our staff reporter's questions on the above issues.

[Liu Kai] How do you appraise the current situation of the development of the farm machinery industry? Under the current situation, what should be the basic projection on the development of agricultural mechanization?

[Li Gengxin] From January to October 1989, the total output value of China's farm machinery industry increased about six percent per month, 19 percentage points lower than that in the corresponding period of 1988. This rate is more normal and basically conforms to

last year's projection. The super-high growth rate in the past few years, especially last year, includes quite a few irrational factors. This year, of the 16 major categories of key products, six have fulfilled annual production plan ahead of schedule. Except for individual products such as motor-driven rice transplanter, tea leaves processor, and machine-pulled rake, most products can fulfill annual production plan. It is possible that the total output value of the farm machinery industry may fulfill or slightly overfulfill its annual production plan.

After the 5th Plenary Session of the 13th CPC Central Committee, especially after the National Work Conference on Agricultural Mechanization, as the whole party and all trades and professions enhanced their understanding of the status of agricultural foundation, the undertaking of agricultural mechanization took a new turn for the better. However, some issues are still being coordinated and resolved. As far as the development of the farm machinery industry is concerned, some unfavorable factors affecting production and marketing still exist. Because of this, both opportunities and difficulties will continue to exist in the future development of the farm machinery industry.

[Liu Kai] What do "unfavorable factors" mainly refer to? To what degree have they been resolved as of today?

[Li Gengxin] They mainly refer to funds, raw materials, prices, taxes, diesel, and agricultural loans. As of today, the fund issue has attracted great attention from departments concerned. This year, the state has taken out millions of yuan worth of funds to help enterprises solve their problems. Financial departments are trying hard to help enterprises solve the "triangle debt" problem. As far as our industry is concerned, this problem may be alleviated next year. Through the joint efforts of many departments, the raw materials problem has been basically cleared. Next year, the supply of state-price steel products may be slightly increased with this year's base level guaranteed. As for the tax issue, the State Administration of Taxation specified several years ago that it will give special consideration to the main engine products of farm machinery. It also issued a special notice not long ago, demanding that all localities reduce value-added taxes on farm machine accessories in a given time period. On 15 August, the Agricultural Bank of China issued a special notice to clearly explain rules and regulations on the principles, targets, and basic conditions of loans for the purchase of farm machinery. On 20 November, after Jiang Zemin, Li Peng, and other main leaders of the central government inquired about this matter, the office of the State Council issued a circular, demanding that the departments concerned properly resolve the issue of diesel supply for farm use. In sum, although these problems have not been thoroughly solved, they already have a good start. I hope that all enterprises can voluntarily coordinate with the departments concerned to properly resolve those issues which have been clarified.

[Liu Kai] What is next year's work focus of the farm machinery industry?

[Li Gengxin] Next year and two to three years after that, the farm machinery industry will be focused mainly on improving the quality of productive factors, tapping the existing potential of enterprises, and gradually getting on the track of highly effective and intensive management: 1) We should use scientific and technological advancement as our guide to enhance the research and development ability of enterprises and establishments, build a group of product development centers with the 1980's international level, and gradually push our industry to the track of development based on intensive expansion. 2) Along with the work done in the past few years, we should continue the training of some export enterprises, straighten out the channel and management of product export, and raise the work of product export to another new level. 3) We should continue to expand the development and production of import substitutes and strive to rely on existing ability to satisfy domestic needs in two to three years. 4) We should seize the opportunity of market slump to readjust enterprise structure and product mix, force some enterprises to switch to another line of production or take on the production of other machinery and electronic products that are urgently needed in rural areas, and help the departments concerned to do a good job in enterprise consolidation and reform. 5) We should continue to do a good job in improving the quality of products, with technological work as the point of breakthrough. 6) We should make a success of a group of key projects that can give an impetus to the whole industry, selectively support a group of specialized production enterprises and enterprise groups, and help them become the "state team" of the farm machinery industry.

[Liu Kai] What is the situation of investment in the future?

[Li Gengxin] It is unlikely for the state to relax too much in investment in the next 3 to 5 years. Future investment will be focused on raising enterprises' technological level, improving testing devices, increasing the ability to develop products, and speeding up personnel training. In capital construction, technological transformation, and scientific research, the key is to give priority to arrangements for the development and production of those products which are urgently needed but unavailable, which are in short supply on the market, which save energy and materials, which can be recycled and reused, which can be exported to earn foreign exchange, which can be used as import substitutes to save foreign exchange, and which have marked technological advantages, such as: the complete set of equipment for the production of the three major crops of wheat, rice, and corn, equipment urgently needed for the "vegetable basket" project, mechanical equipment for livestock breeding and fodder processing, accessories and spare parts affecting the level of products, and some crucial manufacturing technologies that can be considered as breakthroughs.

**Tobacco Profit Potential Lost in Rising Costs***90OH0285F Beijing JINGJI CANKAO in Chinese  
19 Dec 89 p 2*

[Article by Ji Huibin (0370 1920 2430): "Bumper Crop of Tobacco Joyously Harvested in 1989; No Cause for Optimism About Situation in 1990"]

[Text] According to information from the Conference on Improving the Economic Environment and Restructuring the Economic Order in the national tobacco system convened recently in Taiyuan, a bumper crop of tobacco was joyously harvested during 1989 in China. Tobacco procurement is proceeding well, estimates calling for the procurement of 41 million dan of tobacco by the end of the year, an amount slightly higher than in 1988. However, because of a rise in the cost of producing flue-cured tobacco, tobacco growing peasants earnings will be less. Tobacco production during 1990 faces the danger of a serious slide.

At the beginning of 1989, following State Council promulgation of "Notice on the Restructuring of Tobacco Procurement Procedures," the State Tobacco Monopoly Bureau organized an inspection force of more than 2,000 people from throughout the system to supervise and inspect tobacco procurement. In overwhelming majority of provinces and regions, strict control was exercised during the procurement process to insure no raising of grades in order to hike prices, and no beating down of grades in order to depress prices, procurement made strictly in accordance with national standards. As a result, tobacco procurement during 1989 was better than in any previous year.

Reportedly, some potential dangers also showed up in the procurement process. These resulted primarily from too great a leap in prices of coal and chemical fertilizer used in flue-cured tobacco production that the tobacco growing peasants found difficult to bear. In 1988, coal used for producing flue-cured tobacco sold for 80 yuan per ton. This year the price soared to about 200 yuan. In 1988, the state supplied chemical fertilizer at the parity price of slightly more than 400 yuan per ton. In 1989, chemical fertilizer was supplied at a combination of the negotiated and parity prices, the price approximately doubling. The rise in prices of raw materials produced a serious proportional imbalance between tobacco and grain, the ratio falling from 1:5 to approximately 1:3 making peasants less interested in growing tobacco. During 1989, tobacco plants were pulled up and destroyed during the flue-cured tobacco growing season. This alone reduced the tobacco harvest by more than 1 million dan, occasioning a direct economic loss of 100 million yuan.

The 1990 tobacco sowing season lies just ahead, but many tobacco growing peasants still maintain a wait-and-see attitude. Departments concerned have suggested, first, a readjustment of procurement prices, restoring in a single step the 1:5 price ratio between tobacco and grain. They also suggest the retention of agricultural production supports (subsidization of tobacco growing peasants).

**Forest Resource Consumption Down in 1988***HK0602072790 Beijing NONGMIN RIBAO in Chinese  
22 Dec 89 p 1*

[Report by reporter Zhou Jianhao (0719 1696 6275): "Total Consumption of Forest Resources Tends To Decline"]

[Text] According to the latest statistics, China's total forest resources consumption in 1988 was 328,496 million cubic meters, 4.5 percent less than the figures (the average value of the period 1984-1988) of the Third Forest Resources Investigation released not long ago, and 7.3 percent less than the figures shown in the National Consumption Investigation of 1985.

Forest resources consumption varied greatly from place to place. Eighty percent of the consumption of forest resources took place in Heilongjiang, Yunnan, Sichuan, Inner Mongolia, Jilin, Fujian, Guangxi, Jiangxi, Hunan, Guizhou, and Henan. Of the total consumption, productive consumption accounted for 61.3 percent, nonproductive consumption accounted for 36.3 percent, and consumption due to disasters accounted for 2.4 percent.

The timber that were burnt was 10,681.5 cubic meters and the absolute number was the largest, accounting for 32.5 percent of the total consumption and 90 percent of the timber used in nonproductive consumption. The amount was 108,000 cubic meters more than was burnt in 1985.

Timber consumed by peasants for private uses accounted for 21 percent of the total consumption, second only to the amount burnt. The forest resources consumption in Fujian, Guangxi, Jiangxi, Hunan, and Guizhou were mainly timber consumed by peasants for private uses, timber that was burnt, and timber for regional consumption. These three sorts account for more than 70 percent to 90 percent of the consumption in these provinces.

**Cereal, Oil Imports for November Reported***HK0301100390 Beijing CEI Database in English  
3 Jan 90*

[Text] Beijing (CEI)—Following is a list showing China's import volume of cereals, oils and foodstuff in November, 1989, according to primary statistics released by the General Administration of Customs.

Item	Unit	Nov.	Jan.-Nov.
Cereal	Ton	1,157,180	15,499,841
Wheat	Ton	1,143,729	13,928,903
Soybean	Ton	40	769
Sugar	Ton	285	1,444,831
Animal oils and fats	Ton	5,156	93,457
Edible oil	Ton	156,624	856,928
Other oils	Ton	82,479	612,611

### **Jiangsu Enjoys Ample Supplies of Farming Products in 1989**

90OH0285G Beijing JINGJI CANKAO in Chinese  
20 Dec 89 p 2

["More Fertilizer, Enough Plastic Mulch, and a Good Supply of Chemical Pesticides in Jiangsu in 1989"]

[Text] "In the supply of the agricultural means of production during 1989, there is more fertilizer, enough plastic mulch, and a good supply of chemical fertilizer. Monopoly sale is better." This is the assessment of numerous peasants in Jiangsu Province during 10 months of monopoly sales of the means of agricultural production.

The supply of plastic mulch in Jiangsu Province has been more than enough during 1989, and the supply of chemical fertilizer increased. During the period January through September, a total of 4.62 million tons of nitrogenous fertilizer was supplied, up 8.4 percent from 1988. This included a 19 percent rise in the amount of urea, making this the all time high amount of supply for the same period in any year. For a time, a shortage of organic phosphate and agricultural pesticides was reported, but the supply has changed from "dangerous" to "safe," basically satisfying needs.

The "wild leap in prices" has been effectively controlled. Monopoly units instituted rigorous price policies during 1989. Quite a few cities and counties improved their methods for pricing agricultural means of production commodities outside plan, changing from the former method of setting prices for wholesale lots and charging more for a single amount to a fixed overall sale price for the year in each county, thereby maintaining prices relatively stable. The provincial government also allocated 62 percent of retained foreign exchange for the importation of materials used in agriculture. The means of production system in supply and marketing cooperatives provincewide subsidized means of agricultural commodities in 1989 lowering set prices by more than 20 million yuan.

During 1989, the Jiangsu departments of agriculture and commerce conducted soil tests preliminary to prescribing fertilizer applications, and plant protection contracting services on a more than 3 million mu crop area. The Yancheng Municipal Means of Agricultural Production Company, and plant protection units there jointly provided services in the form of disease and insect pest forecasting, guidance, prevention and control, prescriptions, and supplying pesticides for 330,000 mu of cotton fields in eight townships. Preliminary calculations show a 5.3 kilogram per mu increase in ginned cotton, a saving of 3.01 yuan per mu in agricultural pesticide costs, and a 29.25 yuan per mu average increase in income. If the saving in labor and the increase price of pesticides are figured in, the peasants gained more than 10 million yuan, or 130 yuan per household.

### **Shandong Tobacco Procurement**

40060023A Jinan DAZHONG RIBAO in Chinese  
7 Jan 90 p 1

[Summary] In 1989, Shandong Province procured 4 million dan of flue-cured tobacco, a 4.3-percent increase over 1988. Shandong earned \$30 million in foreign exchange from tobacco and cigarette exports.

### **Industrial Workers Return to Farming**

90OH0285B Beijing JINGJI CANKAO in Chinese  
26 Dec 89 p 1

[Article by Shen Haixiong: "One Million Peasants Working in Industry Return to the Fields in Zhejiang"]

[Text] As a result of the readjustment of township and town enterprises in Zhejiang Province since the beginning of winter, nearly 1 million peasants working in industry have returned to the fields to fight valiantly in the front lines of winter water conservancy construction and the development of production.

Zhejiang Province's township and town enterprises are fairly well developed, employing 5.4 million workers or 27 percent of the rural workforce. After the beginning of improvement of the economic environment and restructuring of the economic order, 25 percent of Zhejiang's township and town enterprises had to halt production and close up shop for various reasons, including high energy consumption and poor returns. More than 1.3 million members of the workforce faced unemployment.

This turn of events caused Zhejiang Provincial CPC Committee and provincial government leaders to feel that they were both under pressure and also facing an opportunity. Zhejiang has a large population relative to available land. Its agricultural production has the name of "embroidery agriculture." Because of the insufficient attention given agriculture during the past several years, the quality of the agricultural workforce declined; farmland water conservancy facilities aged; and grain production faltered for four years in a row. At the same time, there were fairly abundant hill and ocean beach resources throughout the province, more than 5 million mu of gently sloping hills alone being available for development. Grain yields per mu could also be increased from the present 700 kilograms to more than 900 kilograms per mu. A great potential in agriculture still existed in breadth and in depth.

The leaders of each of the counties, prefectures, and townships in Zhejiang Province mobilized and organized these peasants working in industry for the winter construction of water conservancy, and winter sowing. Now, more than 500,000 people do combat daily on water conservancy construction sites. They have already moved 21.79 million cubic meters of earth, and both the number of people and the volume of work are more than double last year's figures. The number of "abandoned fields" throughout the province has decreased by more than one-half. Today, the planting of 10 million mu of spring 1990 cotton has been completed.

This is more than 500,000 mu more than in 1989. Reportedly, the province is in process of establishing more than 70 centers for the promotion of agricultural techniques in counties and prefectures, and staffing each township and town with agricultural technical personnel, providing timely education in agricultural techniques for the peasants who walked out of the factory gates. This enables these peasants working in industry who have returned to the village to augment agricultural production ranks, once again becoming key cadres on the agricultural front. For example,

three of the 435 peasants who returned to the countryside in Kangqiao Town, Hangzhou City already head major grain growing households, 52 head households specializing in hog raising, and 145 head households specializing in chicken raising, both economic benefits and social benefits being rather marked. Quite a few young peasants who returned to the countryside say they are content to work in either industry or farming. So long as they are willing to bear hardships and work hard, working at their "old trade" also holds promise.

### Liu Xiaobo Advocates Intellectual Independence

900N0195A Hong Kong CHENG MING

[CONTENDING] in Chinese No 145, Nov 89 pp 72-74

[Article by Liu Xiaobo (0491 2556 3134): "China's Contemporary Intellectuals and Politics, Part VII"; Part I published in JPRS-CAR-89-047; Part II in JPRS-CAR-89-088; Part III in JPRS-CAR-89-107; Part IV in JPRS-CAR-89-114; Part V in JPRS-CAR-90-006; Part VI in JPRS-CAR-90-011]

[Text] *The expression of intellectuals' political independence is that intellectuals do not necessarily have to be involved in politics. More important, intellectuals' respect for the "truth of knowledge" should override good and evil in morality and the progressive and the conservative in politics. Especially when conflicts occur between the two, intellectuals should not be swayed by the opinions of society or threatened by political power. They should uphold their belief in "the truth of knowledge."*

(Continued from last issue)

2. He changed from vehemently criticizing the vast number of ignorant people in China to resolutely advocating proletarian popular literature. He even attributed the origin of literature to the laboring sounds of "yo heave-ho" of workers carrying lumber. Here I do not want to argue about the rationality of the concept "literature originated from labor" in the Marxist theory of literature. What I am interested in is Lu Xun's acceptance of the concept "literature originated from labor." It marked Lu Xun's change from criticizing to worshipping the public. In my opinion, the above two changes both explained that, deep in his personality, Lu Xun, the Chinese intellectual known for his extreme antitradition attitude, still lacked an independent political personality. These changes were not accidental. Instead, they were an inevitable phenomenon. In his early years, Lu Xun gave up medicine for literature in order to awaken the Chinese people and remold their souls. If we link this to the slogan of "literature of compliance" which he brought up in the early 1920's, we will understand that from the very beginning he used literature to get into politics or he engaged in politics in the form of literature. Mao Zedong was right when he said that Lu Xun was not only a writer and a thinker, but also a revolutionist. The struggle to compete for the chairman of the "Leftwing Writers' Association" in the 1930's had a strong resemblance to a politicians' power struggle. The only difference was that they used words as their weapons.

In addition to Lu Xun, many other famous writers also turned to the "proletarian revolution." The most typical include the populist movement—intellectuals getting involved with the public, which was extremely popular in the 1920's—and the communist movement of the 1940's in Yanan, which urged intellectuals to integrate with workers and peasants. These go-to-the-public movements were not products of force by dictators. Instead, they were carried out voluntarily by intellectuals who

were proud of what they did. It was also a fad at the time for intellectuals to go to Yanan. Writers like Ding Ling [0002 3781], who depicted the "sexual depression" of young intellectual women (in the *Diary of Madame Sha Fei*), turned out works depicting the revolution of the people (like *Sun Shines on the Sangqian River*) as soon as they arrived in Yanan. Writers like Mao Dun [5403 4163], who in his early days wrote mainly about subjects concerning intellectuals, began in the 1930's to write political articles in response to the challenge of Trotskyists (such as *Midnight*). The revolutionary nature of the revered Mr. Guo Moruo is even more interesting. Almost everything he wrote between the 1930's and his death was related to politics. After 1949, Lao She [5071 5287], Ba Jin [1572 6855], and Cao Yu [2580 4417] also began to engage voluntarily in politics through literature and to serve workers, peasants, and soldiers. Until the second half of the Cultural Revolution, Chinese intellectuals had a positive attitude toward the theory that intellectuals should integrate with workers, peasants, and soldiers. They sincerely believed that it was the only way for intellectuals to remold their thinking and become revolutionaries. Even after the Cultural Revolution, all works about intellectuals going to work in the countryside and mountain areas used praising tones to describe the intimate relationship between intellectuals and peasants. As if ignorant, isolated, and impoverished mountain villages were holy and pure surface dust, every ill-fated intellectual could find the rejuvenation of their lives and the elevation of their souls there and relive the process of sprouting, blossoming, and bearing fruit. I have mentioned before that, since Marxism was introduced to China, Chinese intellectuals have had two gods in their hearts: One is dictators who hold political power; the other is the common people at lower levels. As a matter of fact, intellectuals in ancient China were also the same. In their hearts, the common people came right after the emperor. This is why "imperial foundation" and "the people's foundation" could appear simultaneously as the supreme authority in ancient literati's and officials' writings. When one is successful, he should consider "imperial power as the foundation." When one is not successful, he should consider the "common people as the foundation." This phenomenon also exists in today's China. Didn't those intellectuals who were persecuted during the "antirightist" movement and the Cultural Revolution find the comfort of hearts in the unsophisticated embrace of the common people? The worship of leaders, workers, peasants, and soldiers during the Cultural Revolution was exactly the extreme development of China's traditional "imperial foundation" and "people's foundation." In addition to intellectuals, the bureaucrats of the Chinese Communist Party also go to the people now and then to show off their worker ways on the occasion of Afforestation Day and so on, don't they? Didn't Chiang Ching-kuo, who was trained in the Soviet Union, also raise the slogan "go to the people"?

An intellectual who uses mental labor to earn a living has absolutely no need to learn how to cultivate land and

make iron. This is not a shame. It is determined by the specific characteristic and independence of intellectuals. But China's contemporary intellectuals are ashamed of this. What on earth has caused this? Why were Chinese intellectuals so bold in going to the people and proud of themselves for "growing a handful of thick calluses" after Marxism entered China? I think that both the worship of imperial power and the worship of workers, peasants, and soldiers are Chinese intellectuals' worship of politics. In other words, Chinese intellectuals do not have an independent political personality. Chinese intellectuals regard their engagement in labor as a form of political engagement. The intellectuals' lack of independent political personality refers mainly to that, with regard to social status, Chinese intellectuals have never played any role as an independent social force in society from ancient times to the present. Instead, they have always attached themselves to politics. In the selection of the value of life, the first choice of Chinese intellectuals is a political career. They regard political value as the primary value of life. The "three immortal deeds" of the Confucianists—first, attain a high moral standard; second, render meritorious service; and third, expound ideas in writing—put "attaining a high standard" in morality and "rendering meritorious service" in politics in first place, whereas "expounding ideas in writing," which ought to be intellectuals' primary value, is placed in last place. "Expounding ideas in writing" should be the foundation of intellectuals. "Attaining a high moral standard" and "rendering meritorious service" should be second. Moreover, according to the Confucianist tradition, "attaining a high standard" in morality does not have an independent value. As the first choice, "attaining a high moral standard" is to prepare one's personality for "rendering meritorious service" in politics. Just like the purpose of "cultivating one's moral character," which is to "run the country" and "bring order across the land," "bringing order across the land" is the highest ideal for Chinese intellectuals. Only when the ideal of running the country and bringing order across the land cannot be realized, namely when there is no hope for rendering meritorious service, will intellectuals "pay attention to their own moral uplifting" and "expound their ideas in writing." Almost no ancient Chinese intellectual who left some writings did not first try to pursue a political career. The only difference was that some succeeded and some failed. Those who succeeded rose to higher ranks while those who failed "paid attention to their own moral uplifting" and "wrote books to expound their ideas."

In the West, beginning in ancient Greece, intellectuals basically formed an independent stratum and chose the value of "love for wisdom" as their primary purpose of life. From ancient times to the present, numerous Western intellectuals have considered the pursuit of knowledge and research as independent and self-sufficient values. In particular, the establishment of modern democratic political systems has provided institutional guarantees for the existence of intellectuals as an independent social force. Intellectuals not only can use

pure knowledge as capital to make a living, but also can gain an independent social status and personality. Such independence is expressed mainly in two aspects: The first aspect is that in society intellectuals do not rely on any other stratum. They use only their knowledge to hold dialogues with society and rely on their knowledge to guide society in advance, to criticize irrational social phenomena, especially political evils, and to defend social justice. Intellectuals are eternal critics of existing systems and moral standards. This right of intellectuals should be protected by the freedom of speech provided by law. However, we must point out that it is one thing for intellectuals to criticize politics from an independent social status, but it is quite another for them to consider politics as their primary choice of value and throw themselves into it. The expression of intellectuals' political independence is that intellectuals do not necessarily have to be involved in politics. Those who are not interested in politics are also intellectuals and they also can become outstanding intellectuals. Therefore, intellectuals' political criticism is unrestrained and so is the degree of their involvement. More important, intellectuals' respect for "the truth of knowledge" should override good and evil in morality and the progressive and the conservative in politics. Especially when the "truth of knowledge" conflicts with moral standards practiced in society and with political interests, intellectuals should not be swayed by the opinions of society or threatened by political power. Instead, they should uphold their belief in the "truth of knowledge." The second aspect is that, in selecting the value of life, intellectuals' independence regards the pursuit of pure knowledge as independent and self-sufficient values, the chief measurement for the meaning of life, and the first method of self-fulfillment. The value of discovering the truth of knowledge is higher than the value of morality, reputation, and political positions. As the founder of classical mechanics, Newton ought to be crowned with eternal glory regardless of the fact that he could not do anything right morally or that he was a conservative in politics. As a philosopher and scientist, Descartes is remembered forever, but he was very conservative and stubborn morally and politically. Famous American contemporary poet Pound once defended fascism politically, but he left his outstanding poems and songs in the people's memory. To intellectuals, "knowledge" surpasses everything. In the West, Bruno died defending Copernicus's scientific discovery, "the heliocentric theory." In China, many people died for just causes, but not one intellectual was found to have died for the "truth of knowledge," although many have died for political reasons. "Knowledge is power"—this famous remark can only come from the West in modern times, not from China. Such trends of thought as "studying science for the sake of science," "studying art for the sake of art," and "doing research for the sake of research" are also traditions of Western intellectuals. They are inconceivable in China, where people "write to record hows and whys" and "study for the sake of application."

In China, it is very difficult for scholars to gain independent social status by relying on the pure knowledge they possessed. They will never regard the pursuit of pure knowledge as an independent and self-sufficient value, not to mention regarding the "truth of knowledge" as the primary choice of value. Chinese learn in order to prepare for an "official career" in the old expression, or for the sake of revolution in today's expression. From ancient times to the present, learning is to prepare for, first, a political career and, second, moral reputation. Especially in ancient China, there was no pure knowledge in the sense of Western expression, only the Four Books and the Five Classics which have flesh-and-blood ties to politics. I doubt if this learning can be called knowledge. Can writers and poets, who possessed such knowledge and used it as capital for political pursuit, be counted as intellectuals? I also doubt it. Judged at least from the angle that modern intellectuals must have self-sufficient independence, whether or not there was a stratum of intellectuals (in the sense of independence) in the ancient or even modern society of China remains a question open to discussion. How can we call such learning knowledge in a nation where pure philosophy, pure religion, pure science, and pure arts do not exist except for learning related to politics and moral principles and in a society where educated men pursue the "attaining of higher standards" in morality and the "rendering of meritorious service" in politics as the highest value? How can we call these educated people intellectuals?

In my opinion, intellectuals are a colony that is independent from and beyond all other social strata, whose task is to create leading spiritual wealth, and whose primary value is to seek pure knowledge. This colony should possess the following characteristics: 1) Independent social status. Intellectuals do not rely on political groups (authorities) or economic groups (capitalists); still less do they rely on the broad masses of people. They rely only on the knowledge they possess. Such a social status, which is independent and based on knowledge, should be guaranteed with independent property rights and the rights of freedom of thought and speech. 2) Independent choice of value. They should consider the pursuit of the "truth of knowledge" as the primary value of life, just as Descartes said: "...Spend my whole life to nurture my rationality and do my best to advance in the sphere of truth in accordance with the method I laid out." The kind of satisfaction in life gained from such pursuit is irreplaceable by any other kind of happiness. (See page 140 of the 1985 edition of Descartes' *I Think, Therefore I Am*, which was edited by Chien Chih-chun [6929 1807 4783] and published by Taiwan Chih Wen Publishing House.) 3) Independent social function. This includes two aspects: One is to create and spread knowledge to accelerate the progress of mankind; the other is to criticize society from an aloof stand. 4) Sense of self-doubt and criticism. Intellectuals are critics of society as well as of themselves, with the latter surpassing the former. Due to intellectuals' leading nature, they will never be able to reach total harmony with society.

Instead, they will always have a certain degree of conflict with society and consider criticizing society as their own responsibility. If this is true, neither will they be able to reach total harmony with themselves, due to the doubt and self-questioning spirit of intellectuals. Instead, they will always consider themselves as the target of questioning and criticize themselves. In a broader sense, intellectuals represent the leading wisdom of mankind, so their self-questioning and self-criticism are the self-questioning and self-criticism of mankind itself. In comparison, intellectuals' self-criticism is more difficult and important than their criticism of society because the weakest moment of human beings is when they honestly face their inner world. Everyone's biggest enemy is himself. 5) Transcendancy. Intellectuals have the skeptical spirit to carry out self-criticism and the criticism of society because they are clearly aware of the limitation and weakness of mankind and themselves. Because of this, they always establish an absolute value that transcends mankind for the reference of reality. They also use it to conduct self-questioning and continue to transcend through self-questioning. Although this ultimate value is unreachable, intellectuals have to assume its existence because without such an assumption they will lose the value standard for their self-questioning. In this sense, intellectuals' pursuit of transcendent value may be called a devout religious feeling of repentance and atonement. It is the light of heaven that reveals the darkness of the human world; it is the perfection of God that reveals the imperfection of human beings. Without God, humanity's degeneration will become meaningless. More important, without God, humans will not know that they are degenerating. Instead, they will be blindly intoxicated with the self-appraisal of being omniscient, omnipotent, and absolutely perfect. With God, the world is horrible. Without God, the world will be even more horrible. Who shall we blame but the limited destiny inherent in humanity! After we understand intellectual independence or the intellectual characteristic of being an independent social entity, we will be able to have a more profound understanding of the phenomenon of Chinese intellectuals voluntarily integrating with workers and peasants. Chinese intellectuals' political personality is exactly the inner cause that has led them to pursue integration with the working people. Chinese intellectuals' political personality has caused them to consider political value as the highest purpose of life and political career as the primary choice of life.

(To be continued)

**Freedom of Religion Within Socialist Context**  
90ON0190A Urumqi XINJIANG SHEHUI KEXUE  
[SOCIAL SCIENCES IN XINJIANG] in Chinese  
No 5, 10 Oct 89 pp 79-81

[Article by Qi Fu (4359 2445); Lian Zhenhua (6647 2182 5478), chief editor: "Freedom of Religious Faith, Patriotism, and Respect for the Law"]

[Text] While events in the capital were developing from a student movement into unrest and rebellion, some places elsewhere in the country were affected. The "19 May" incident of vandalism and disturbances in Xinjiang was part of this phenomenon. A small number of rioters used the issue concerning a book entitled *Sexual Customs* as an excuse to attack party and government organs in the autonomous region. They caused serious damage to state property and brought serious bodily harm to some police officials and officers, as well as cadres from organs at the regional level. Although the autonomous region took decisive and forceful measures to control the disturbance in a timely manner, and decided to deal severely (in accordance with the law) with the rioters and principal instigators of this disturbance, the viciousness of this incident, and its grave aftermath, cannot but cause deep concern.

After the Cultural Revolution, our party, by summing up the experiences and lessons of history, resumed its correct plan and policy toward religion. The most important aspect of this policy is to respect and defend freedom of religious faith, and to make this a long-term, fundamental policy regulation within the Constitution which must be thoroughly carried out for the duration of the period of socialism. The people's freedom of religious faith enjoys the protection of the laws of the socialist state. The normal religious activities of religious people and believers are rigorously defended, for which reason they receive the full approval and support of the people of every ethnic group. However, to protect the democratic rights of the people, we must strengthen the socialist legal system. In carrying out the policy of freedom of religious faith, we cannot abandon the prerequisite of patriotism and obedience for the law.

The great People's Republic of China is a united, multi-ethnic nation created by the common effort of the various ethnic groups. People of all the ethnic groups created the history of our fatherland. They have created and developed the economy of the fatherland, and have contributed to the struggle to resist imperialist aggression, as well as oppression and exploitation by reactionary classes within China. They have defended the integrity and unity of the territory of our fatherland. Patriotism is a healthy tradition of the Chinese people. It is a tremendous force, which has propelled the fatherland's social and historical progress. Patriotism is the political foundation of the unity of the multitudes throughout the nation. It is the flag of our country's united front, and it is the heart of religious work. Patriotism is manifested concretely in the actions of every citizen, and is interwoven in the fabric of everyday life. Only by resolutely upholding patriotism can we seek a great unity that encompasses small differences. Only by upholding patriotism can we draw upon the initiative of all believers and nonbelievers in order to strive for the common goal of the four modernizations.

Patriotism means to love the socialist nation under the leadership of the Communist Party. Only after the birth of the Communist Party did the Chinese people (under

the correct leadership of the Communist Party, and through the long-term, common struggles of the people of every ethnic group) overthrow the "Three Great Mountains" [san zuo da shan 0005 1654 1129 1472] and win total independence for the fatherland and liberation for our people. "Without the Communist Party, there would be no New China." To uphold patriotism, one must uphold the leadership of the Communist Party, oppose the philosophy of bourgeois liberalization, which attempts to weaken and terminate the leadership of the party, and carry out a resolute struggle against the promoters of unrest who have brazenly attacked the party and have had the temerity to attempt to overthrow the leadership of the party.

Patriotism and socialism are of the same cloth. In China, every advance in the patriotic thought of religious believers brings them one step closer to socialism. The more thorough one's patriotism, the more easily can that person become a socialist. The socialist economy is based on the system of public ownership, and the goal of production is to afford the greatest possible satisfaction of the people's material necessities. For this reason, the socialist system is incomparably superior to the capitalist system. The system of socialist thought has enabled the Chinese people to have common economic and social ideals and common standards of morality. Upholding patriotism can enable religious believers and socialism to accommodate each other, and will enable religious believers to contribute their force to socialism.

A patriotic religious believer must be a citizen who respects discipline and obeys the law. China's Constitution includes clear regulations regarding the people's right to freedom of religious faith: "No state organ, social group, or individual shall force any citizen to believe or not believe in religion, and they shall not discriminate against any citizen for that person's belief or lack of belief in religion."<sup>1</sup> That is to say, in China, one has the freedom to believe or not believe in religion; to believe in this religion or that one; and within one religion, to believe in this or that sect. Whether one is a believer or not, he or she cannot be "coerced" or "discriminated against."

China's Constitution further stipulates that "China protects normal religious activities. No person shall use religious activities to carry out acts that disrupt social order, cause bodily harm to other citizens, or hinder the state educational system." "Religious groups and religious affairs shall not be subject to the control of a foreign power."<sup>2</sup> These regulations distinctly reflect the objective laws of the issue of religion during the period of socialism. Although China's religious situation has undergone a fundamental change due to the deep socio-economic changes and important changes to the religious system that have occurred since liberation, and conflicts involving the issue of religion are now mainly a matter of contradictions among the people, nevertheless, the problem of religion is long-term and complex. In many places it has always been intertwined with ethnic problems, and has been influenced by some class struggles

and complex international factors. A small number of counterrevolutionaries and bad elements may also carry out criminal activities and counterrevolutionary destruction under the guise of religious activities. Furthermore, religion can also be used by reactionary forces at home and abroad to incite and deceive a considerable portion of the masses into struggling against the people's government, which is under the leadership of the Communist Party. We must call upon our people to be keenly alert against this. We must resolutely attack all criminal and counterrevolutionary activities that hide under the cloak of religion. We must deal according to the law with all counterrevolutionaries and criminals who have mixed themselves in among the ranks of the religious, and we must resolutely prevent infiltration by hostile forces among foreign religions. In the process of reform and opening up, we must resolutely develop friendly foreign relations on the basis of independence and autonomy.

The law on autonomous government for China's autonomous regions, as the basic law for the implementation of the Constitution, clearly reiterates the regulations of the Constitution with regard to religion: "Protection of religious freedom not only should not impede the dissemination of scientific education, it should strengthen it, and it should strengthen propaganda against superstition." With respect to activities connected with feudal superstitions and reactionary societies, which are beyond the scope of religion, the 99th Article of China's criminal code stipulates, "Anyone who organizes and uses feudal superstitions or secret societies to carry out counterrevolutionary activities shall be sentenced to five years or more in prison. For less flagrant cases, the defendant shall be sentenced to a prison term of five years or less, probation, or will be required to forfeit their political rights." Article 165 of the criminal code also stipulates, "Sorcerers or witches who use superstition to spread rumors or swindle money shall be sentenced to a prison of two years or less, serve probation. In flagrant cases, the defendant shall serve a prison sentence of two to seven years." In the "Decision of the National People's Congress Standing Committee Regarding Strict Punishment of Criminals Who Seriously Disrupt Social Order," it is further stipulated that anyone who organizes a reactionary society or uses feudal superstition to carry out counterrevolutionary activities, or who seriously disrupts law and order "can be given sentences more severe than the highest ones allowed under the criminal code, including capital punishment."

Religion (as a social phenomenon), religious activities (as a type of social activity), and religious organizations (as a type of social entity) must, of course, in addition to obeying the relevant laws in the Constitution, the law on self-government by the autonomous regions, and the criminal code, accept administrative regulation by the government. This includes the government's protection of the legal rights of religion as well as the government's criticism and correction of irregular religious activities, guidance of, intervention in, and sanctions and attacks against activities that violate law and discipline. In the regulation of religion, we must resolutely preserve the

prior achievements of democratic reform. It is absolutely impermissible to revert to religious or feudal privileges, or to systems of religious oppression and exploitation which have already been abolished. Furthermore, we must at this time be especially resolute in opposing unrest. We must prevent some people with ulterior motives from confusing truth and falsehood and inflaming the masses with rumors. We must oppose those who, in any manner, incite and exacerbate religious fervor. We do not permit anyone to use religious freedom as an excuse to organize religious activities that reach across district or county lines. We do not permit anyone, whatever their excuse, to instigate discord between followers of different religions, or between followers of different sects within the same religion. According to the party's policy on religion and regulations regarding religious sites, no person should propagate atheism at any religious site, nor should any religious organization or person, while outside religious sites, preach, propagate theism, or distribute religious flyers or any other religious publications that have not been approved by an organ with primary policy authority. Religious activities must not impede social order, production order, or work order.

To uphold patriotism and obedience of the law in religious work means to uphold the four basic principles. It is completely compatible to uphold the four basic principles and carry out the policy of freedom of religious faith. It is not necessary for religious believers to abandon their religious beliefs in order to uphold the four basic principles; they are only asked not to spread propaganda opposed to Marxism-Leninism and Mao Zedong Thought. Religion is asked not to interfere in politics or education.

Carrying out propaganda work to promote patriotism and obedience of the law, drawing a clear line between normal religious activities and criminal activities, drawing a clear line between religion and feudal superstition, eliminating superstition, and attacking criminal activities have not hindered freedom of religious faith. On the contrary, they have protected normal religious activities and achieved normalization of religious activities. For this reason, as we look back on and sum up the lessons we learned in quelling unrest and counterrevolutionary rebellion, we absolutely must draw a connection with actual conditions in Xinjiang. We must act according to the spirit of the autonomous region party committee by further carrying out education regarding "the four have's," "the five love's," and "the two things we cannot do without." We must strengthen development of a socialist spiritual civilization. We must teach the cadres and masses of every ethnic group to resolutely avoid saying anything harmful to ethnic feelings and not to do anything destructive to unity among the various ethnic groups. We must trust each other, learn from each other, help each other, and respect each other's language, literature, customs, and religious faith. We must work together to preserve national integrity and unity among the various ethnic groups.

## Footnotes

1. Constitution of the People's Republic of China, Article 36.

2. Ibid.

**XINHUA Praises System of Using, Checking ID Cards**

*OW1202230890 Beijing XINHUA Domestic Service in Chinese 0521 GMT 10 Feb 90*

[By reporter Zhou Lixian (0719 4539 2009)]

[Text] Beijing, 10 Feb (XINHUA)—Since the system of using and checking identification cards went into effect on 15 September last year, the number of people carrying ID cards with them all the time has increased markedly, which in turn has had a good impact on society.

The implementation of the system of using and checking ID cards has strengthened social management and raised people's legal awareness. The use of ID cards has helped the masses in handling their personal political, economic, and social affairs. Surveys done in some areas in Beijing, Shanghai, Sichuan, and Jilin show that more than 70 percent of the people surveyed carry their ID cards. An ID card check done in Chaoyang District in Beijing Municipality showed that 90 percent of the residents carry their ID cards. ID card checks have prompted those who have not applied for their ID cards to apply for them and, thus, the number of cards issued has increased.

Since implementation of the system of using and checking ID cards, departments concerned have established and improved their corresponding systems. The Civil Aviation Administration of China and the banking system have set up specific measures whereby people must show their ID cards to travel by airplane or to use the "Great Wall Credit Card." In some localities, the use of ID cards has greatly facilitated the work of recruiting workers, postal and telecommunications services, banking services, marriage registration, and traffic control.

Thanks to ID card checks, a number of cases were solved and offenders arrested. Take Beijing Municipality for example: An ID card check was implemented in the city on 1 September last year and by 21 September more than 1,100 law offenders were dealt with, 259 cases solved, and over 166,000 public order offense and traffic violation cases handled. In October last year, the public security organ of Changchun City, Jilin Province, discovered a major fraud case involving more than 6 million yuan while doing ID card work and arrested the principal offender and accomplices.

Public security organs also issue temporary ID cards for those who are waiting for their permanent residency permits, who have not yet received their ID cards, or whose ID cards are lost or damaged, in a bid to plug the loopholes in the system of using and checking ID cards. In some cities, ID card checks have helped to strengthen the management of the temporary and itinerant population and to get rid of jobless itinerants.

**Public Security Ministry Releases 1989 Fire Statistics**

*OW1402114490 Beijing XINHUA Domestic Service in Chinese 1116 GMT 5 Feb 90*

[By reporter Zhang Heming (1728 7729 7686) of ZHONGGUO XIAOFANG (CHINA FIRE CONTROL)]

[Text] According to statistics from the fire department under the Ministry of Public Security, there were 2.41 million fires nationwide last year, which killed a total of 1,832 people, injured 3,189 others, and caused economic losses totaling 492 million yuan. Compared with 1988, the number of fires dropped by 19 percent; the number of deaths and injuries dropped by 18 and 0.5 percent, respectively; and economic losses rose by 39.1 percent. Last year there were 125 exceptionally serious fires (fires that cause economic damage in excess of 300,000 yuan, kill more than 10 persons, or inflict damage on more than 50 families), which resulted in a combined damage total of 220 million yuan. Compared with the previous year, damage caused by exceptionally serious fires rose by 89 percent. This is one of the main reasons that losses resulting from fires increased sharply in 1989.

In terms of sectors, the industrial sector leads the list with losses totaling 136 million yuan, followed by the agricultural sector with losses of 127 million yuan, and the commercial sector with losses of 124 million yuan.

The major causes of fires remain carelessness, faulty electrical equipment, and violations of safe operational procedures and regulations.

In view of the sharp increase in fire damage, the fire department under the Ministry of Public Security called on all localities and departments to heighten their awareness of fire prevention; to actively mobilize and rely on the masses; to strictly abide by fire safety regulations in production, daily life, and in using electricity and gas; and to earnestly remove hidden perils in order to prevent major fires. Public security and fire departments at all levels must step up propaganda, rigorously enforce supervision and inspection, and sternly deal according to law with any violations of the fire prevention regulations that cause great damage.

### Background on Lt Gen Li Henghua

90ON0232C Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 206, 16 Nov 89 p 49

[Article by Kuo Chieh-chih (6753 4814 1807): "Fierce General of Tank and Armored Units—Lt Gen Li Henghua"]

[Text] The Lanzhou Military Region is situated in the communications hub of China's northwest, and is also China's nuclear base and missile testing ground. Li Henghua [2621 1854 0553], political commissar of the Lanzhou Military Region, who has abundant experience and solid qualifications and record of service, is a fierce local general worthy of attention, but very little is known about his past.

Born in April 1922, Lieutenant General Li Henghua is 67 years old this year, and he is now a member of the NPC [National People's Congress] Standing Committee and the political commissar of the Lanzhou Military Region.

### Li Henghua's Early Years

Li Henghua is from Qixian County, Henan Province. In October 1938 he joined the New 4th Army, and in February 1939 he joined the CPC. During the War of Resistance Against Japan, Li Henghua was, in succession, in the New 4th Army, a member of the Youth Vanguard Team of the Guerrilla Detachment; youth clerk of the 2d Regiment; political instructor of the independent dadui; political instructor of the 5th Company, 8th Regiment, 6th Detachment; political instructor of the Special Agent Regiment; political instructor of the 3d, 4th, and 5th dadui of the Cavalry Regiment, 4th Division; and deputy section chief of the Organization of the Cavalry Regiment.

After victory in the War of Resistance, civil war once again broke out between the Nationalists and the Communists. From 1945 to October 1949, Li Henghua held in succession the posts of Organization Section chief, Political Office, Cavalry Regiment, 4th Division and secretary of the CYL general branch—both in the New 4th Army; deputy director of the Political Office, Cavalry Regiment, Special Troops Column, East China Field Army (the leader of which was Chen Yi); and director of the Political Office, 1st Regiment, Training Division, and deputy political commissar of the 2d Regiment, Training Division, and deputy political commissar of the Tank Regiment—all of the 3d Field Army.

### In Charge of Armor and Tank Military Affairs for a Long Time

In October 1949, after the Chinese Communists founded their state, Li Henghua became in succession political commissar of the 3d Regiment, 2d Tank Division, Special Troops Column, 3d Field Army; political commissar of the 3d Tank Regiment, Armored Corps, Chinese People's Volunteers; political commissar of the 3d Regiment, 3d Tank Division, Armored Corps; and

deputy director and director of the Political Department, 2d Tank Division, Liberation Army. In 1956 Li Henghua took a crash course at the CPLA's [Communist People's Liberation Army] Political Academy. After graduation he served successively as secretary general of the Secretariat of the Political Department and director of the Propaganda Department—both in the Armored Corps—and as political commissar of the 1st Tank Division of the Armored Corps.

From 1965 to 1980 Li Henghua was in succession director and political commissar of the Political Department, Armored Corps, Beijing Military Region; and director of the Political Department, Beijing Military Region.

From 1980 to 1985 Li Henghua was the director of the Political Department in the Urumqi Military Region and Wang Enmao's [3769 1869 5399] right-hand man. In 1985, after China's military regions were readjusted and there was a troop reduction, Li Henghua, on the contrary, rose sharply. In June 1988 he became political commissar of the Lanzhou Military Region, a post he holds to this day. In April 1988 Li Henghua was elected a member of the NPC Standing Committee. In October 1988 he was promoted to lieutenant general.

### Biographical Data on Guo Linxiang of CMC

90ON0232B Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese  
No 206, 16 Nov 89 pp 44-45

[Article by Wei Wu (7279 0124): "Military Forces Readjusted—Guo Linxiang Assumes Important Role"]

[Text] As they enter 1990 the Chinese Communists will carry out in the entire military, particularly in its higher level, strict discipline inspection, ideological education, and rectification. In this aspect General Guo Linxiang [6753 2651 4382], secretary of the Discipline Inspection Committee of the Central Military Commission [CMC], is bound to assume an important role.

### Gen Guo Linxiang Is Now the Secretary of the Discipline Inspection Committee of the Central Military Commission, Concurrently Deputy Director of the General Political Department

In September 1988, Guo Linxiang, secretary of the Discipline Inspection Committee of the Central Military Commission, concurrently deputy director of the General Political Department, was "promoted" from the rank of major general, which he had held since 1955, two grades, becoming one of the 17 full generals in China today.

By being promoted to general in September 1988, Guo Linxiang became one of the oldest general officers. A native of Yongfeng County, Jiangxi Province, in 1930 he joined the Chinese Communists' Workers and Peasants Red Army. In that year, with the Red Army he set out from the central soviet area in Jiangxi on the Long

March. There are not many such persons left who are still in good health at their advanced ages, but among them is one who has been promoted to general, namely, Zhang Zhen [1728 7291], from Hunan Province, who is now the president of the National Defense University.

In his very long military career, Guo Linxiang has gone through many hardships and dangers.

#### Biographical Notes on Guo Linxiang

Guo Linxiang was born in 1914. In 1930 he joined the Chinese Workers and Peasants Red Army. Later, in 1933, he changed from being a CYL [Communist Youth League] member to being a CPC member. In the period of the agrarian revolutionary war he was successively a company political instructor of the Red Army; chief of the Organization Section, Political Department, 4th Division, Red Front Army Group; and political commissar, 13th Regiment, 1st Division. In 1934 he took part in the Long March.

During the War of Resistance Against Japan, Guo Linxiang was in succession president of the Anti-Japanese Military and Political University, a dadui commander, a detachment commander, and, not long after, a regiment commander.

Also, during the War of Resistance Against Japan, in succession he was the political commissar of the Special Agent Regiment, Headquarters, 8th Route Army; deputy director and director of the political department in a military subdistrict of the Taixing Military District; and deputy political commissar of the Yuxi Anti-Japanese Independent Detachment. The lengthy memoirs he wrote and which the Liberation Army Publishing House published, *A Crack Force From Taixing*, records and narrates the arduous Long March by this unit and the battle successes in resisting Japan by thrusting into the enemy's rear and catching him unaware.

During the war of liberation Guo Linxiang was, in succession, deputy political commissar of the 1st Brigade, 1st Column, Central Plains Military Region; deputy political commissar of the Independent Division, East China Field Army; director of the Political Department, 13th Column, North China Field Army; and deputy political commissar, 61st Army, 18th Corps.

After the founding of the PRC, he became in succession deputy political commissar of the Chuanbei Military Region; deputy political commissar, Public Security Unit, Xinan Military Region; deputy political commissar and first political commissar of the Chengdu Military Region; political commissar of the General Logistics Department; political commissar of the Xinjiang Military Region; political commissar of the Nanjing Military Region; and secretary of the Discipline Inspection Committee of the CPC Central Committee's Military Commission, concurrently deputy director of the General Political Department. In 1955 he was promoted to major general.

Guo Linxiang was a representative of the 3d, 4th, 5th, and 6th NPC's [National People's Congress] and a representative of the CPC's 8th, 11th, and 12th National Congresses. In 1985, at the CPC National Congress, he was elected a member of the CPC Central Committee's Central Advisory Commission. In 1988 he was promoted to general.

At 75 years old this year, Guo Linxiang is still full of vigor, and he is responsible for the discipline inspection work of the entire Chinese Communist military. It is said that he is now strictly demanding that the discipline inspection cadres in the armed forces take the lead in being honest and upright, attaching importance to educating the troops to display the excellent traditions, enforcing party and Army discipline, and overcoming corrupt phenomena. In the armed forces he is considered a figure of "noble character and high prestige."

## EAST REGION

### Sanming City in Fujian Implements Personnel System Reform

#### Reform Stresses Goal Management

90ON0306A Fuzhou FUJIAN RIBAO in Chinese  
23 Dec 89 p 2

[Article by Bai Yuchen (4101 5148 3819): "Using Hard and Practical Tactics To Perform the Soft and Theoretical Job of Building Our Spiritual Civilization"]

[Text] How are local party and government organizations reforming their personnel systems and improving their work styles to motivate the work on their spiritual and material civilizations? The main way that Sanming City is accomplishing this is by practicing goal management for government jobs in an all-round way.

Goal management for government jobs is a higher-level responsibility system. The Sanming City municipal party committee and government have issued "tenure goal responsibility documents" to responsible party and government personnel in all of its counties (cities and prefectures) and directly subordinate municipal ministries, commissions, offices, and bureaus. These departments and units have broken down the overall goals into a certain number of separate and specific goals and assigned them level by level to each unit, section, office, and even to every government functionary and office worker. Thus, they have set goals for each level and duties for each person, so that each level is responsible for its own goals and every job is carried out.

The so-called management objectives are linked to the actual conditions and capabilities of each sector. For instance, they are linked mainly to economic efficiency in economic sectors, such as industry, transportation, agriculture, and commerce; mainly to social benefits in departments, such as propaganda, education, culture, sports, and health; and mainly to basic service levels in comprehensive service organizations, such as party and government organs, the CPPCC [Chinese People's Political Consultative Conference], and worker, youth, and women's groups.

Goal management for government jobs is a complete systems engineering network composed of a "responsibility system," a "proficiency assessment system," and a "system of rewards and penalties," in which the "responsibility system" is the premise, the "proficiency assessment system" is the key, and the "system of rewards and penalties" is the means. As one of the first departments in Sanming City to practice a goal responsibility system for government jobs, the Sanming Municipal Personnel Bureau drew up "Provisional Measures on Appraising Job Rewards and Penalties in 12 Counties (Cities and Prefectures)" and "Provisional Measures on Rewards and Penalties for Government Workers in Sanming City." All departments concerned made regular proficiency assessments of the goal management for jobs that

was practiced by all county (city and prefecture) and directly subordinate municipal departments, and paid special attention to promptly summing up, exchanging, and popularizing advanced experiences. For instance, the Sanming Municipal Personnel Bureau held a "discussion to Exchange the experiences of 12 counties (cities and prefectures) on their practice of goal management for jobs" in Shaxian County in March 1989, and also held a "joint conference to exchange experiences on the responsibility system for Sanming City's government jobs" with the municipal party committee's administrative reform office and organization department and the directly subordinate municipal working committee in July 1989.

It was previously felt in some units that work on our material civilization was a "hard target," while work on our spiritual civilization was a "soft job." It would have been very hard to make any real progress in building our spiritual civilization without changing this situation of "using hard tactics to build our material civilization, while using soft ones to build our spiritual civilization." The change to goal management for government jobs that Sanming City carried out in February 1988 was finally able to solve this "serious and longstanding problem." This was because it was able to turn the so-called "soft job" of building our spiritual civilization into a "hard target" that had to be fulfilled, put it into effect for everyone, accomplish division of labor with individual responsibility, realize quality-based management proficiency assessment, conduct regular checkups, and guarantee job performance. Sanming City's cadres and masses have symbolically called it "using hard and practical tactics to perform the soft and theoretical job of building our spiritual civilization." For instance, Sanming City's Spiritual Civilization Construction Commission uses practical and hard tactics for the "theoretical and soft job of building our spiritual civilization." After it began to practice goal management for jobs, it drew up 23 proficiency assessment targets for three major jobs in April 1988, which systematically ensured implementation and fulfillment of the responsibility system. Ninghua County's directly subordinate organizations and all of its townships put into effect a percentage proficiency assessment system that gave points based on "quality" and rewards and penalties based on "points," all the way from its county party committee secretaries and magistrates to its ordinary cadres and office workers, without exception. When drawing up its township spiritual civilization goals, Shaxian County set up a system of 20 points, two each in 10 specific proficiency assessment categories, such as "party and government groups," "party style," and "honest administration," and also formulated a certain number of targets to assess proficiency in all of its functional departments. This regular quality-based management proficiency assessment changed the intangible "soft job of building our spiritual civilization" into a tangible, mandatory, and assessable "hard target."

Since practice is the only criterion for judging truth, we will rely on the facts to evaluate the social benefits and

economic efficiency of the goal management for government jobs that Sanming City is practicing in an all-round way, as follows:

**Goal Management Has Eliminated Abuses in Government Organizations, Such as Vague Duties, Poor Administrative Efficiency, and Serious Bureaucracy**

After Sanming City's Industrial and Commercial Bureau began to practice a goal management responsibility system, "facilitating commerce and benefiting the people" became the creed of the cadres, staff members, and workers throughout the system. Its leaders and government functionaries took the initiative in 1988 to go down to the grassroots units to mediate enterprise disputes, recovering for them 157 overdue goods payments worth 4,071,300 yuan, and those who directly guide and supervise all county (municipal and prefectural) industrial and commercial bureaus received 7,745 letters from the masses.

Since they began to practice goal management, the policemen in Sanming City's Public Security Bureau have generally begun to feel that "the burden is on their shoulders and there are rules and criteria by which to judge the quality of their work." The bureau's departments, such as its visa management section, household administration section, public security section, and traffic police detachment, have worked hard to publicize their administrative regulations and procedures by printing them on cards and giving them to consumers, applicants, and administrative personnel, so that they are clear to the masses at a glance. The visa management section has extended its reception time from one to six days a week and has set up a "section chief reception day." Matters that used to be hard to handle can now be settled at stipulated times.

Since Yongan City's Cooperation Office began to practice goal management, it has provided top-quality service to consumers and grassroots units by "a coordinated process" and "immediate handling." When Taining County wanted to set up an office in Yongan City in the past, several units tried to shift the responsibility onto each other and it was not accomplished even after several months, but this office was set up successfully in just one day in 1988. The Yongan City Planning Commission took only a little more than one hour to hear reports, including loan planning, and go through the formalities to make arrangements for a 6 million yuan loan for a new small ceramic hillside power station.

**Practicing Goal Management Responsibility System for Government Jobs in an All-Round Way Has Speeded Up the Building of Our Material and Spiritual Civilizations**

Sanming City's GVIAO [gross value of industrial and agricultural output] increased 27.9 percent, the gross value of its foreign trade exports increased 80.1 percent, and its natural population growth rate was kept within the target set by Fujian Province from 1987 to 1988. Sanming City withstood a severe political test during the

turmoil in 1989 by keeping all its government offices, factories, schools, and stores in normal operation and maintaining good social order, and not even one person took to the streets to demonstrate against the government. It also made further economic progress from 1988 to 1989, with its GVIAO increasing another 16.67 percent and its grain output reaching a record 1,232,900 tons. Every Sunday, more than 3,700 spiritual civilization groups all over the city take to the streets to serve the people, providing free haircuts, medical services, shoe, bicycle, and household appliance repairs, and answering various questions. Sanming City has maintained a stable and united society, made the study of Lei Feng's good deeds the common practice, raised its citizens' ideological moral, scientific, and educational levels, and created a flourishing, improving, and gratifying environment.

**Clear Management Objectives Targeted**

900N0306B Fuzhou FUJIAN RIBAO in Chinese  
23 Dec 89 p 2

[Article by Li Li (2621 7642): "A Major Advance in Personnel System Reform"]

[Text] Why have abuses, such as vague duties, poor administrative efficiency, and bureaucracy, appeared in our government organizations at all levels? As far as our personnel system is concerned, vague job goals are the crux of the problem. We have become accustomed to regarding material production as a job that requires hard and practical tactics, and management work as a soft and theoretical job. We use assigned tasks and targets and a whole set of inspection and supervision methods in our material production, while using neither assigned tasks nor targets in some of our management work, leaving it to improve one day and deteriorate the next according to chance. If we do not have clear goals or a complete set of effective inspection and supervision methods, what kind of job can we do and with what kind of efficiency?

The world-renowned management specialist Harold Koontz said that "management without clear goals is chaotic and arbitrary and no group can hope to work effectively and efficiently without a clear management objective." The work style in our government offices has a direct impact on the building of our spiritual and material civilizations. In addition to reinforcing our political and ideological work, improving the work style in our government offices also requires a better personnel system. The goal management for government jobs that Sanming City has been practicing in an all-round way is worth noting precisely because it is a major advance in personnel system reform.

Sanming City's cadres and masses have symbolically called goal management for government jobs "using hard and practical tactics to perform the soft and theoretical job of building our spiritual civilization." Although "soft and theoretical tactics" are part of the superstructure and are used to build our spiritual civilization, they are still invincible forces that can affect our

economic base and motivate the building of our material civilization. Using soft and theoretical tactics to perform "soft and theoretical jobs" essentially ignores the responsibilities of government offices and neglects the building of our spiritual civilization. We have certainly learned enough lessons in the last 40 years about "soft and theoretical tactics"! Sanming City's use of "hard and practical tactics" to perform "the soft and theoretical job of building our spiritual civilization" certainly shows that our organizations have finally set up rigorously enforced administrative laws and regulations and a personal responsibility system, that the job responsibility limits of our organizations and their cadres have finally been prescribed strictly and clearly, and that our masses of people have finally come to understand government affairs, that it is their job to supervise public servants, and that they have a dependable way to judge the achievements of their public servants!

Since the proletariat smashed the old state machinery and seized power, the international communist movement has still certainly been unable to establish a new kind of truly efficient government management organization. Even though our leader Lenin paid particular attention to eliminating bureaucracy when he established the world's first socialist state, he was unable to completely resolve the issue because of the objective factor of the civil war. Right before his death, he was still solemnly telling the 12th CPSU Congress that "The issue of state organs should be studied very conscientiously." The CPC has always paid particular attention to the issue of state organs. Our Constitution clearly stipulates that "every state organ must apply the principle of efficient and simple administration and use a job responsibility system." Comrade Deng Xiaoping has also strongly emphasized that state organs "must establish a job responsibility system from top to bottom." Reforming the current personnel system in state organs is going to be a long-term job of overall significance under new conditions. The bold attempts at personnel system reform that have been carried out in recent years by many areas and sectors in Fujian Province, which is regarded as a testing zone for overall reform throughout China, have achieved remarkable results and accumulated valuable experience. However, since personnel system reform is, after all, a brand new subject, there is a question as to whether the goal management for government jobs that Sanming City is practicing will be able to give us all any useful enlightenment.

### **Zhejiang People's Congress Sets 3d Session for March**

OW1202115190 Hangzhou Zhejiang Provincial Service  
in Mandarin 1000 GMT 7 Feb 90

[Text] The 14th meeting of the Standing Committee of the seventh provincial People's Congress decided that the Third Session of the Seventh Zhejiang Provincial People's Congress will be held in Hangzhou on 7 March 1990.

The session's main agenda includes listening to and examining the work report of the provincial people's government, examining and approving the 1990 economic and social development plan for Zhejiang Province, examining and approving the report on the execution of the fiscal 1989 budget for Zhejiang Province and its fiscal 1990 budget, and listening to and examining the work reports of the Standing Committee of the provincial People's Congress, the provincial Higher People's Court, and the provincial People's Procuratorate.

### **CENTRAL-SOUTH REGION**

#### **Guangdong CPC Acts Against Smut, Abuse of Authority**

90ON0331A Guangzhou KAITUOZHE [PIONEER]  
in Chinese No 12, 10 Dec 89 pp 4-6

[Article by Gan Hua (3927 5478): "Break Through at Key Points, Persevering to the End"]

[Text] Guided by the spirit of the 4th Plenary Session of the 13th party Central Committee, all tasks in Guangdong Province have been performed solidly and thoroughly. The southland in the golden autumn seems increasingly filled with vitality. Placing the misuse of authority to build houses for personal use and the cleaning up of smut in an especially important position by the provincial CPC Committee was the thing that most inspired the fighting will of the broad masses of cadres recently. The provincial CPC Committee made a series of correct decisions, and leading comrades personally went into the front line to gain an understanding of the situation and to provide direction. Their on-the-job travel since the national anniversary alone has been as follows:

During the first 10 days of October, Comrade Xie Fei [6200 7236], provincial CPC Committee deputy secretary, traveled to Meixian, Chaoyang, Haifeng, and Lufeng to plan, inspect, and supervise work in "cleaning up smut."

During the first 10 days of October, Comrade Fang Bao [2455 5383], provincial CPC Committee Standing Committee member and secretary, traveled to six cities and counties, including Zengcheng, Huiyang, and Huidong, mostly for the purpose of understanding and investigating work being done against smuggling and to "clean up smut."

During the first 10 days of October, provincial CPC secretary Lin Ruo [2651 5387], and Comrade Wang Zongchun [3769 1350 2504], provincial CPC Committee Standing Committee member and provincial discipline committee secretary, traveled to Zhanjiang and elsewhere to make on-the-spot observations, and to find out how the investigation and disposition of cases involving the abuse of authority to obtain house was unfolding. People said that so many provincial CPC Committee cadres traveling everywhere, going down to

the grassroots level to provide direction in order to solve a major current problem, showed the provincial CPC Committee's determination to investigate and punish the abuse of authority to obtain houses, and to make achievements in the "smut clean-up."

**Investigation and Punishment of Abuses of Authority To Obtain Houses: A Most Realistic Struggle; a Most Realistic Education**

After the Central Committee Discipline Committee issued the "Open Letter" on the correction of unhealthy tendencies in the building and apportionment of houses in February 1983, the misuse of authority to obtain houses abated for a time in the province. In recent years, however, this evil wind has begun to blow again, and seems to be becoming more widespread. Some party and government leading cadres violate party discipline and national laws; some collectively study schemes to take over more land; some take the lead in constructing private houses illegally; and some engage in graft and bribe taking, extortion and blackmail, and speculation and profiteering. These evil tendencies have become more pronounced, arousing intense dissatisfaction in society. In the midst of all this, some places in western Guangdong have become "major disaster areas." Newspaper disclosures that 17 members of five leadership teams in Huazhou County collectively abused their authority to obtain houses, and that more than 80 party and government cadres in Suixi County built houses along a continuous tract known as "Bureaucrats Street," and so forth, shocked people and showed the extreme seriousness of the situation.

Since March 1989 the provincial CPC Committee has taken firm grip on the investigation and punishment of cadres for misuse of authority to obtain houses, making it a salient for the punishment of corruption in general. It issued Document No. 6 and took action for this purpose. Under impetus of the new atmosphere following in the wake of the 4th Plenary Session of the 13th CPC Committee during the last half of the year, the provincial CPC Committee took more vigorous action on this matter, and issued Document No. 17. Comrade Lin Ruo's personal travel to western Guangdong was for the purpose of providing direction to the "major disaster area" on how to break through difficulties there. At the four-city municipal CPC Committee report-back meeting convened in Zhanjiang, and in the course of his inspections along the way, Comrade Lin Ruo both listened to reports and interjected comments, and he also made some speeches. He expressed views about the problems reflected in the reports, emphasizing help to comrades in the four cities in heightening understanding and confidence about carrying out this task.

The matters that Comrade Lin Ruo focused on solving during this trip to western Guangdong were heightening understanding by party organizations at all levels of the significance and necessity for investigating and punishing abuse of authority to obtain houses. Prior to the report-back meeting, Comrades Lin Ruo and Wang

Zongchun paid a special visit to Suixi to see the "Bureaucrats Street" that so angered the public. Comrade Lin Ruo's facial expression became solemn in the course of his observations, and he left without waiting to complete the visit, demonstrating his anger. After the visit, Comrade Lin Ruo said with conviction that we are opposed to unhealthy tendencies, and we will punish corruption. This "bureaucrats street," and these "bureaucrat houses" demonstrate to us that if this is allowed to continue it will provide mute testimony to the party's inability to punish corruption. Subsequently, wherever Comrade Lin Ruo went, both in and out of meetings, he reiterated the urgency of this struggle, and pointed out that this is the most realistic struggle against corruption. He also said that this work is also the most realistic ideological education. It is both a most vivid education in party spirit, party aims, and party discipline, and a most vivid education in opposition to bourgeois liberalization and to peaceful evolution. If it is handled well, it can go far toward winning the hearts of the party and the people. If it is not handled well, it can cause the broad masses of party members, cadres, and the masses to lose hope. In addition to helping solve problems in ideological understanding, one point Comrade Lin Ruo also repeatedly emphasized was defining the character of the problem of abusing authority to obtain houses, which was that the problem of abuse of authority to obtain houses is currently extremely serious. It has reached the point of violation of laws and party discipline, going far beyond being an unhealthy tendency to become corruption. He said that a proper definition of its character has a bearing on the methods and actions to be taken in the job of investigating and punishing it, and has a bearing on whether this struggle would or would not be simply pro forma.

After resolving the problem of ideological perception, the next problems to be solved were plans and methods. On this matter, Comrade Lin Ruo emphasized the need to arouse the masses fully and to rely on the masses. A momentum had to be developed in key areas instead of simply relying on work teams. For example, with regard to publicizing cadres' building of houses, he said that it was not enough to make public only within official organs the building of houses by CPC Committee secretaries or county magistrates; this had to be made public throughout the county. On the subject of specific tasks to be performed, Comrade Lin Ruo's instructions were also very succinct. As to the direction of the main attack in the current investigation and punishment, he said clearly that the building of houses by members of county leadership teams should be investigated. Only after members of a leadership team in a county were investigated would it be appropriate to say anything else. With regard to the methods to be used in investigations, he instructed that special attention be given to finding out the sources of funds for those who built private houses. This was because it was very clear as a result of investigations so far that the regular income of those who built private houses could not explain how they were able to pay to build the houses. Consequently, they colluded

with others, claiming that the money to build the houses had been borrowed, hoping to get by through deception. However, in the process of doing this, they frequently covered up their abuse of authority for private gain, graft and bribe taking, speculation and profiteering. Comrade Lin Ruo also demanded that principle persons in charge in places where the situation was especially serious should not only take the lead themselves, but should also devote between 60 and 70 percent of their time and energy to this task right now.

His clear-cut instructions and answers on one specific question after another were, one might say, a feature of Comrade Lin Ruo's trip to western Guangdong. This also showed his determination to devote attention to the investigation and punishment of abuses of authority to obtain houses. The series of instructions, as well as the convening of report-back meetings in four cities were really further actions on the part of the provincial CPC Committee for the next stage of investigation and punishment of abuses of authority to obtain houses. Comrades in the four cities of western Guangdong said that, after hearing the guidance from Comrade Lin Ruo, their ideological problems were solved and they knew how to go about the task. By following it, we are confident of being able to do this task. The information we received from throughout the province was that the far-flung masses of cadres had this same kind of confidence.

#### **Cleaning Up Smut: Fighting a "Three-Dimensional War" Throughout Society**

"Cleaning up smut" has been a serious struggle conducted throughout the country since the autumn of 1989. The province's work in "cleaning up smut" has diligently implemented a series of instructions from the CPC Central Committee and the State Council, the work has been carried out early, actively, and concretely. In April, every jurisdiction and unit in the province began to act on "five controls in concert"—cracking down, banning, restructuring, indoctrinating, and controlling, applying legal, administrative, economic, propaganda, and mass supervision methods to effect overall control—thereby achieving remarkable results.

In the course of this struggle, leading comrades in the provincial CPC Committee personally took the lead in doing battle, going to the front lines of "cleaning up smut." In both carrying out specific tasks and in group action to "clean up smut" everywhere, they left their influence and their imprint.

Right after the national anniversary, Comrade Xie Fei went to various places, including Meixian and Chaoyang to gain an on-the-spot understanding of the situation and to convene seminars to examine and assign work for "cleaning up smut." Comrade Xie Fei devoted special attention to getting comrades in all jurisdictions to understand the importance and the urgency of the job of "cleaning up smut," as well as its long-term, complex, and arduous nature. He emphasized this positively was not a case of "much ado about nothing," but rather was

an important component of the current implementation of the spirit of the 4th Plenary Session. It was also an integral part of opposition to bourgeois liberalization, and crucial to the building of socialist spiritual civilization. He also pointed out that the present time offers a fine opportunity for "cleaning up smut." If this opportunity is missed, there will be no end of future trouble. In the course of his 10 days of travel, Comrade Xie Fei also focused on the implementation of work in "cleaning up smut," promoting in-depth performance of this work.

Comrade Fang Bao's travels to six cities and counties, including Zengcheng, Lufeng and Huidong, during the first 10 days of October emphasized understanding about and taking firm grip on control of smuggling and blocking the "sources of smut." One current focus of the task of "cleaning up smut" is to "cut off the sources of smut." Smuggling and "sources of smut" are closely linked in Guangdong, which borders Hong Kong and Macao and has a long coastline. Wherever he went, Comrade Fang Bao particularly emphasized that after the evil winds of smuggling and the sale of smut have been basically halted, it will be necessary to take energetic action to plug and to interdict sources and channels for smuggling and the sale of smut. Within the short space of several days, Comrade Fang Bao, who formerly performed public security work, demonstrated his adeptness in plugging holes. He instructed comrades who accompanied him to use more time roaming the streets and asking questions in shops in places that they visited, making open inquiries and surreptitious observations. As a result, the comrades who went out came in close contact with smugglers and purveyors of smut, collecting smuggled goods and lewd videotapes, playing cards, and magazines that were still being sold. These items in hand, Comrade Fang Bao repeatedly admonished comrades everywhere about overestimating achievements in previous "smut cleanups" and crackdowns on smuggling, much less underestimating the arduous nature and complexity of such struggles. During this visit to eastern Guangdong, Comrade Fang Bao repeatedly pointed out that, in order to achieve victory, "cleaning up smut" and stopping smuggling had to be closely linked to our internal struggle against corruption. He said that practice has shown that wherever smuggling and the "smut scourge" are serious, corruption exists in varying degrees within the local grassroots organization and cadre ranks. Some cadres responsible for enforcing the law themselves take part in or protect such illegal activities. Consequently, he emphasized the need to strengthen leadership in areas and units having serious problems with "smut" and smuggling, using restructuring of the party organization as a basis for revealing all sorts of loopholes, relying on and arousing the masses to action, and drawing up and establishing various effective measures for prevention and control.

In compliance with the call of leading comrades in the Central Committee to arouse the masses to action, create a momentum, and form a powerful public opinion about "cleaning up smut," leading comrades in the provincial

CPC Committee also paid attention to doing a good job in publicizing the "smut cleanup." As soon as the "smut cleanup" job began, Comrade Huang Hao [7806 3185], provincial CPC Committee Standing Committee member and provincial CPC Committee propaganda department director, convened meetings and personally outlined specific tasks for the province's "smut cleanup office," such as setting up a corps, establishing cases, rallying public opinion, and coordinating with the central authorities to run a "smut cleanup propaganda week" campaign. Because of the province's quick and active work and the good results achieved, the Central Broadcasting Station devoted one-third of its news time on the "smut cleanup" work in four southern provinces to Guangdong Province.

While one hand was working on the "smut cleanup," the other hand had to work on making literature and the arts flourish and on enlivening the cultural life of the masses so that there would be no market for licentious things. At the propaganda work conference of September 1989, Comrade Huang Hao gave a full exposition of this policy. During the past two months, Comrade Huang Hao personally inquired about literary and cultural work in the province for 1989 and 1990. He also brought to fruition selected television, cinema, literary, and art works, and he vigorously supported and devoted efforts in many regards.

Since convening the 4th Plenary Session of the 13th Party Central Committee, a new atmosphere has appeared in the various activities of the province. A reflection of this trend is that leading comrades in the provincial CPC Committee frequently take the lead to do battle. Both the investigation and punishment of cadres for abuse of authority in building houses and "cleaning up smut" were done in the past, but because of the lack of a macroclimate, it was impossible to achieve satisfying results. Today, there is a fine macroclimate, and the provincial CPC Committee has made up its mind to regard these two tasks as crucial to the punishment of corruption and the building of spiritual civilization; thus, full victory in these two tasks will certainly be achieved.

### Scenic Spot in Hunan Attracts Domestic, Foreign Tourists

OW0202222890 Beijing XINHUA in English  
1603 GMT 2 Feb 90

[Text] Changsha, February 2 (XINHUA)—Over 8,000 tourists visited Wulingyuan in central China's Hunan Province during the Spring Festival holidays.

Located in western part of the province, the 369-square-kilometer area, famous for large tracts of arenaceous quartz rock forests, has been listed as one of the key scenic spots in China.

Six million Chinese and foreign tourists have visited the area in the past decade. In 1988 alone, 1.5 million people visited the area, 40 times the number for 1979.

The local government has built many hotels and installed a number of transport and telecommunication facilities over the past decade.

An airport is now under construction to attract more tourists.

## SOUTHWEST REGION

### Guizhou Reports Increased Rural Literacy

OW0802081390 Beijing XINHUA in English  
0223 GMT 8 Feb 88

[Text] Guiyang, February 8 (XINHUA)—At least 1.2 million young and middle-aged citizens in the rural areas of Guizhou Province, Southwest China, have shaken off illiteracy.

The Guizhou Provincial Government says about 85 percent of rural young and middle-aged people in 58 counties of the province have reached the standard of literacy set by the state.

Guizhou is one of China's poorest provinces and accommodates many minority nationalities. With a backward economy, it has a proportion of peasants who are illiterate. In some remote mountainous villages, people even found it difficult to recognize the different face values of banknotes.

Last year in a slack farming season at least 17,000 literacy classes were organized in the province. More than 500,000 farmers attended, and now 69 percent of that number are able to read and write.

Simultaneously, farmers attending the classes learned advanced agricultural knowledge. A total of 503 farmers in the Songtao Miao Autonomous County later became agronomists and agrotechnicians, and 25,000 of the former illiterates prospered by putting into practice what they had learned. In 1988, the county won a UNESCO prize for its outstanding efforts to eliminate illiteracy.

Efforts were made in areas inhabited by minority nationalities to teach peasants while enjoying entertainment. On traditional festivals such as "February 2" and "March 3" on the lunar calendar, song contests were held at which "character riddle songs" were sung. Winners received books of folk songs and folklore, all bilingual.

To eliminate illiteracy, government officials at various levels signed responsibility contracts and people from all walks of life showed enthusiasm and support for the anti-illiteracy campaign.

Local officials admit that it is very difficult to win popular acceptance of practical agricultural scientific knowledge in areas where illiteracy is rampant, let alone develop the economy rapidly.

## NORTHWEST REGION

### Gansu Issues Temporary Regulations on Role of CPPCC

90ON0298A Lanzhou GANSU RIBAO in Chinese  
3 Jan 90 p 2

["Temporary Provisions Concerning Political Consultation and Democratic Supervision"—passed 23 November 1989 by the Eighth Session of the Standing Committee of the Sixth Gansu Provincial Committee of the Chinese People's Political Consultative Conference]

[Text] In compliance with the pertinent provisions of the "Constitution of Chinese People's Republic" and the "Constitution of the Chinese People's Political Consultative Conference" [CPPCC], and according to demands levied on the CPPCC by the 13th party congress to strengthen the building of socialist democratic politics, to perfect the multiparty cooperative system and the political consultative system under the leadership of the CPC, to gradually make political consultation and democratic supervision a regular and systematic process, and to assist party committees and people's governments in Gansu in doing a good job of building a socialist material civilization and a socialist spiritual civilization, the following provisions were especially formulated in light of the "Temporary Provisions Concerning Political Consultation and Democratic Supervision by the CPPCC National Committee."

Article 1. The CPPCC is the broadest of patriotic united front organizations. Its main functions are to carry out political consultation and, through suggestions and criticism, bring into play democratic supervision vis-a-vis important state political policies, important local affairs, and internal relations in the life of the masses and in the patriotic united front organizations.

Article 2. The purpose of political consultation and democratic supervision is: To develop socialist democracy; to reflect the opinions and demands of various segments of society; to open up an easily accessible channel for participation in government and political affairs by the various democratic parties, nonparty patriotic personages, mass organizations, national minority personages, and patriotic personages from various fields that belong to the CPPCC; to draw on collective wisdom; to promote important state decisionmaking on a scientific and democratic basis; to assist and give impetus to state organs in making improvements; to increase efficiency; to overcome bureaucracy; to strengthen the building of clean government; to oppose corruption; to supervise the full implementation of the state Constitution, laws, and policies; to give impetus to building a socialist material civilization, a socialist spiritual civilization, and a socialist democracy under the rule of law; to promote the growth of socialist productive forces; to harmonize relations of various segments of society; to promote mutual ties and understanding between various segments; to strengthen unity and cooperation between

various parties led by the CPC; to fully implement the "one country, two systems" policy; and to promote the realization of the great task of unifying the motherland.

Article 3. The major factors with which the CPPCC is involved include: Major Gansu policy decisions and plans with respect to building a socialist material civilization, building a socialist spiritual civilization, building a socialist democracy under the rule of law, and reform and opening to the outside; the work reports of Gansu people's government; the Gansu provincial budget; the provincial social and economic programs; the major items pertaining to the province's political life; the selection of major leaders; the major issues relative to unifying the motherland; important questions concerning people's living standards; and major affairs and other important issues pertaining to patriotic united fronts and the CPPCC.

Article 4. The major forums used by the CPPCC are: The plenary meetings of the Gansu CPPCC Committee; its Standing Committee meetings; its presidium meetings; its Standing Committee meetings on special topics; the meetings of its various special committees; symposiums called as needed of representatives of various democratic parties, nonparty patriotic personages, mass organizations, national minority personages, and patriotic personages from various fields that belong to the CPPCC; and sessions of the Gansu People's Congress, its Standing Committee meetings, and its other pertinent meetings to which the CPPCC is invited.

Article 5. The major aspects of democratic supervision include: The enforcement in Gansu of the state Constitution, laws, and rules and regulations; the full implementation in Gansu of major policies stipulated by the CPC Central Committee and the State Council; the implementation in the province of national economic and social development plans and budgets; the situation with regard to state organs and their workers as they perform their duty, respect the law and discipline, and remain free from corruption; and compliance with the CPPCC constitution and its resolutions by people from various fields and committee members who are CPPCC members.

Article 6. The major forums of democratic supervision are: Plenary sessions of the Gansu CPPCC Committee; proposals made by the Standing Committee or presidium to the Gansu Provincial CPC Committee or to the provincial government; proposals or reports submitted by the various special committees; proposals made by committee members; inspections by committee members; criticism and suggestions in reports or other forms by committee members; and surveys and inspections conducted by the provincial CPPCC organization alone or by departments subordinate to the Gansu CPC Committee and provincial government, as well as by the national CPPCC organization.

Article 7. In accordance with the Gansu CPC Committee, the Gansu People's Congress, the Gansu provincial people's government and its relevant departments,

and in accordance with proposals from various democratic parties and various mass organizations, the Gansu CPPCC Committee plans consultative activities and decides the form and scope of consultation.

When the presidium of the Gansu CPPCC Committee recognizes the need for consultation on an issue, it can suggest that the Gansu CPC Committee, the Standing Committee of the Gansu People's Congress, the provincial government and its relevant departments, various democratic parties, or various mass organizations submit the issue to the CPPCC for consultation.

Political consultation should generally be carried out before a policy decision is made.

A plenary session of the Gansu CPPCC Committee can be convened by itself, prior to a Gansu People's Congress or at the same time.

Article 8. Depending on the circumstances, the Gansu CPPCC Committee can, when carrying out political consultation, invite people in charge from the Gansu CPC Committee, from the provincial government, or from relevant party and government provincial-level departments to participate in the meeting and ask them to explain the issues that have been submitted for consultation.

Article 9. After the topics for consultation have been decided and a meeting scheduled, the relevant departments of the Gansu CPPCC Committee will, at least one week before the meeting, notify the participants or send them the appropriate documents to enable them to work on preparations with the meeting staff personnel.

Article 10. The democratic rights of CPPCC Committee members must be preserved. They can express all kinds of opinions at the CPPCC meetings.

Article 11. Plenary sessions of the Gansu CPPCC Committee, Standing Committee meetings, and other important CPPCC meetings should ordinarily issue news reports.

Article 12. To enable committee members to better know the real situation and to bring into full play the functions of the CPPCC, the Gansu CPPCC Committee should each year organize, in a planned and purposeful manner, systematic inspection activities.

Article 13. The various special committees of the Gansu CPPCC Committee must, under the leadership of the Standing Committee, consider the organizing of committee members to participate in regular CPPCC activities as their most important task. They must enlist committee members to hold informal discussions on special topics, investigate these topics, and have them make proposals and issue reports. They must strengthen their ties to their counterparts in the various provincial-level departments, committees, offices, and bureaus and exchange information and opinions with them. When provincial-level departments, committees, offices, and

bureaus convene important provincial-level work conferences, they can invite the relevant special committees of the Gansu CPPCC Committee to send members to attend. When they organize important surveys and studies, they can, as needed, invite relevant CPPCC committee members to take part. At the same time, the various special committees of the Gansu CPPCC Committee can, as their work requires, invite relevant departments to report to their committees on their work and informally discuss pertinent issues.

Article 14. The various special committees of the Gansu CPPCC Committee must pay attention to bringing into play the function of the committee members. Every important suggestion and proposal made by committee members can, after it has gone through the special committee, be submitted to the Standing Committee or to the presidium for discussion. After it has been passed by the Standing Committee or the presidium, it must be submitted to the pertinent party in the form of a Standing Committee or presidium proposal of the Gansu CPPCC Committee.

Article 15. Proposals, opinions, and criticisms in the name of the Standing Committee, the presidium, or the various special committees of the Gansu CPPCC Committee are sent to the pertinent party or department as formal documents of the Gansu CPPCC Committee's general office. The pertinent party or department must actively and conscientiously study these documents and make a disposition. They are responsible for giving a prompt reply in formal documentation describing the results of their disposition.

The pertinent departments must conscientiously make a study of and dispose of proposals and reports made by the CPPCC Committee.

Article 16. To earnestly perform the important functions of political consultation and democratic supervision, the Gansu CPPCC Committee must, through various methods, help committee members understand relevant situations and create proper conditions for committee members who are participating in government and political affairs. CPPCC Committee members must study hard, immerse themselves in reality, carry out investigations and studies, closely link up with the masses who are represented by the political parties, mass organizations, and relevant parties, actively reflect the opinions and demands of the masses, and do an even better job of bringing into play the proper role of the masses in government and political affairs.

#### Arrests in Gansu '6 Vices' Cases Listed

90ON0298B Lanzhou GANSU RIBAO in Chinese 31  
Dec 89 p 1

[GANSU RIBAO reports from Jiuquan Prefecture, Wuwei Prefecture, Jiayuguan City, and Baiyin City]

[Text] Jiuquan Prefecture has achieved success in vigorously sweeping away the "six vices."

Since 14 December 1989, Jiuquan, Yumen, Anxi, Dunhuang, and Jinta have publicly disposed of 78 "six vices" cases involving 290 people. They were separately put under arrest, given administrative detention, or punished by public security depending on the seriousness of the circumstances. And now more than 20 criminal elements from Jiuquan City and Yumen City have confessed to public security organs because of the propaganda and their fear of attacks.

During December, pertinent departments in Wuwei Prefecture solved 31 "six vices" cases, striking out and disposing of 185 "six vices" criminal violators.

Since the beginning of December when efforts were started to clean up the "six vices" until the present, Jiayuguan City has seized a total of 110 criminal violators of various categories and smashed eight criminal gangs.

Through their collective force and united efforts, the public security organs of Baiyin City have resolutely attacked "six vices" criminal activities. The results have been obvious. So far they have solved a total of 32 "six vices" cases in the city and seized 181 people who were involved.

### **Gansu Acts To Reduce Government Meetings**

*OW0202213290 Beijing XINHUA in English  
1559 GMT 2 Feb 90*

[Text] Lanzhou, February 2 (XINHUA)—The government of Gansu Province in northwest China has decided that no meetings will be held on Mondays and Saturdays.

The decision is part of the provincial government's efforts to reduce the number of meetings and give leaders more time to go down to grass-roots units and improve their efficiency in solving problems which need prompt attention.

The government has also stipulated that any meeting of prefectural and county leaders lasting five days or more may not be held without the permission of the provincial government.

According to provincial sources, many institutions at the provincial and county levels have also adopted similar measures to reduce the number of meetings.

The governor and vice governors of the province will also refrain from attending cornerstone laying ceremonies, opening ceremonies, celebrations and other social activities.

**LIAOWANG Reports on Mail Exchange With Taiwan**

*OW1102232890 Beijing XINHUA in English  
1454 GMT 11 Feb 90*

[Text] Beijing, February 11 (XINHUA)—The OUTLOOK [LIAOWANG] magazine reported that the exchange of

mails between the two sides of the Taiwan Strait last year increased by 4.5 times over the previous year.

It said statistics show the mails exchanged amounted to more than 13 million pieces.

But, the magazine said, the Taiwan authorities still follow the policy of no exchange of mails, trade, air and shipping services, creating many obstacles for postal service between the two sides of the Taiwan Strait.

**Taiwan Professors Visit Shanghai**

*OW1102061790 Shanghai City Service in Mandarin  
2300 GMT 6 Feb 90*

[From the "Morning News" program]

[Text] A visiting group of 11 professors from Taiwan arrived in Shanghai by plane from Beijing yesterday afternoon to begin a three-day visit to the municipality. They are on a winter vacation.

Mao Jingquan, vice chairman of the municipal committee of the Chinese People's Political Consultative Conference [CPPCC], met all members of the group at the Jingan Guest House's Pavilion of Guests of Honor yesterday evening.

Members of the group came from nine famous institutions of higher learning in Taiwan. Most of them are about 30 years old. They are young scholars of the second and third generation in Taiwan.

The main purpose of their visit is to carry out an academic exchange and to inspect the condition of construction in the motherland.

Mao Jingquan welcomed the experts and scholars from Taiwan on behalf of Xie Xide, chairman of the municipal CPPCC committee, and the CPPCC committee itself.

The visiting group will take part in academic exchanges of both sides of the strait at the municipal (academy of

sciences) and Fudan University during their stay in Shanghai. It will also visit the Baoshan Iron and Steel Complex.

**ROC Named 'Chinese Taipei' for Asian Winter Games**

*OW0302100490 Taipei CNA in English  
1035 GMT 2 Feb 90*

[Text] Tokyo, Feb. 2 (CNA)—The Republic of China [ROC] team to participate in the second Asian winter games, which will open in Sapporo on March 9, will be named as "Chinese Taipei" in Japanese katakana [characters], according to a decision by the organizing committee for the games.

The ASAHI SHIMBUN reported that the committee reached the decision at a meeting here Thursday that the ROC team's official name in the coming winter games will follow the formula of the International Olympic Committee (IOC).

At last April's Asian junior gymnastics tournament in Beijing, the Chinese Taipei team was named "Chung Hua Tai Pei" in Chinese characters, which indicated that it is highly likely that the ROC team to the 11th Asian (summer) games in Beijing in September will be named as the same, noted the paper.

The Japanese organizing committee for the winter games decided to follow the IOC formula on grounds that Red China has said that the name of "Chung Hua Tai Pei" in Chinese characters can only be used in Red China, reported ASAHI.

Consequently, the ROC teams are expected to be called in different names in the coming winter and summer Asian games, it added.

**Bar Association Urges Government To Back Rights Bill***HK2501021190 Hong Kong HONGKONG STANDARD in English 25 Jan 90 p 3*

[By Mary Luk]

[Text] The Bar Association yesterday warned the Government not to water down the Bill of Rights, saying it should be entrenched and given supremacy over other laws.

Describing the issue as a priority for the Bar, the new chairman, Mr Anthony Rogers QC, also said entrenchment for the bill could be provided in the Basic Law.

He said that although the Basic Law draft was finalised in Guangzhou last week, it would not be promulgated until March or April and amendments could still be made.

If a Bill of Rights was enacted in such a way, it would be hard for China to make any directives on the issue since Hong Kong would be governed by the Basic Law and the bill would be safeguarded by its supremacy and entrenchment.

Mr Rogers said the bill must be entrenched with some mechanism to prevent it or any of its provisions being amended either inadvertently or without proper consideration and consensus.

He said the bill could be entrenched by amending the Letters Patent, which contained wide powers and was able to ensure everybody's basic rights would not be contravened.

"If the British government is unwilling or unable to take such steps it should say so but this should not delay the enactment of the bill," Mr Rogers said yesterday.

He noted that the bill itself could provide a form of entrenchment and provisions to override other laws.

Such supremacy was needed so other laws not complying with it would be invalid.

"Without these two safeguards (entrenchment and supremacy), a Bill of Rights would be a collection of pious hopes," he said.

The Bar felt the Government had not considered including these two safeguards.

"We don't know more than that. But all we know is the bill has not been approved by the Executive Council and consultation on the issue could not be published," Mr Rogers said.

He said the association believed an entrenched Bill of Rights would not contravene the Sino-British Joint Declaration or the Basic Law.

"The Joint Declaration specifically provides that the two relevant international human rights covenants as presently applied to Hong Kong 'shall remain in force' after 1997," he said.

"There can be no overriding reason why a simple ordinance enacting those provisions into Hong Kong law cannot be legislated for now, if there are compelling reasons against a detailed, prescriptive bill. At the moment there are none."

He said if a Bill of Rights had been enacted, it would have been in force seven years before the change of sovereignty. "By then, Hong Kong will be accustomed to the bill which will be entrenched and grown up," Mr Rogers said.

He said the Bar did not feel a freeze period was necessary. "Considerable work has already been done to identify the problem areas in existing legislation so there is no reason for any delay in implementing the bill," he said.

The Bar's human rights group would consider action after the consultation paper was published. "We... will go on pressing the Government until we have a satisfactory bill."

**Professional Groups Denounce Draft Political Model***HK0902030590 Hong Kong HONGKONG STANDARD in English 9 Feb 90 p 4*

[By Stanley Leung]

[Text] Eight professional bodies have joined forces to denounce the political model pushed through by mainland Basic Law drafters.

In letters to British Prime Minister Mrs Margaret Thatcher and all 18 local Basic Law drafters, they say public reaction to the blueprint shows that it is unacceptable to the people of Hong Kong.

This steps up pressure for a change to the so-called mainstream model with just a week remaining before a Basic Law Drafting Committee plenary session finalises the post-1997 system.

The influential groups—representing lawyers, doctors, dentists, architects and engineers—also criticised proposed nationality restrictions on future legislators. They said these contravened the Joint Declaration.

In the letters, the groups said: "We must ask you to ensure that a system of government is enshrined in the Basic Law which commands support of the Hong Kong people."

They also urged Britain to allow Hong Kong to bow to the wishes of the territory's people when designing a system of government for the year's until 1997.

The British and Hong Kong governments are considering the composition of the Legislative Council in 1991 and 1995.

The letter, which was also sent to Governor Sir David Wilson, said the proposal adopted by Basic Law drafters in Guangzhou last month provided for a slower pace of democratic development than the Omelco model or 4-4-2 model, which were supported by most Hong Kong people.

The proportion of directly-elected legislators in 1997 would be 50 percent under the Omelco model and 40 percent under the 4-4-2 model. The mainstream model adopted last month allows for 30 percent.

The mainstream model has also been attacked for its separate voting system, similar to the two-house system proposed by Mr Lo Tak-shing's New Hong Kong Alliance.

"A proposal has been introduced which provides for a system of separate voting for different categories of legislators, with directly elected members and those chosen by a grand electoral college forming one unit and the functional constituency members forming the other," the letter said.

"All bills will need to be passed by both units in the first instance and only if resubmitted will a simple majority suffice."

They noted that the British government was holding discussions with the Chinese government on Hong Kong's future political system.

The letter to Mrs Thatcher said it was the British government's responsibility to take steps to ensure that the Basic Law should comply with the provisions in the Joint Declaration.

Mrs Thatcher and the drafters were told that nationality restrictions on future legislature were not only unworkable but a contravention of the Joint Declaration.

At the Basic Law meeting in Guangzhou last month, drafters decided that not more than 15 percent of members in the future SAR legislature should have the right of abode in another country.

"The Joint Declaration provides that the legislature shall be composed of local inhabitants and the possession or acquisition of a right of abode outside Hong Kong cannot disqualify a person from being a local inhabitant," the associations said.

Bar Association executive director Mr Denis Chang said the groups had no common view on how many directly elected seats there should be.

He said Beijing had not respected views of Hong Kong people.

The eight bodies are the Hong Kong Bar Association, the Hong Kong Dental Association, the Hong Kong Institute of Architects, the Hong Kong Institute of Planners, the Hong Kong Institute of Surveyors, the Hong Kong Institution of Engineers, the Hong Kong Medical Association and the Law Society of Hong Kong.